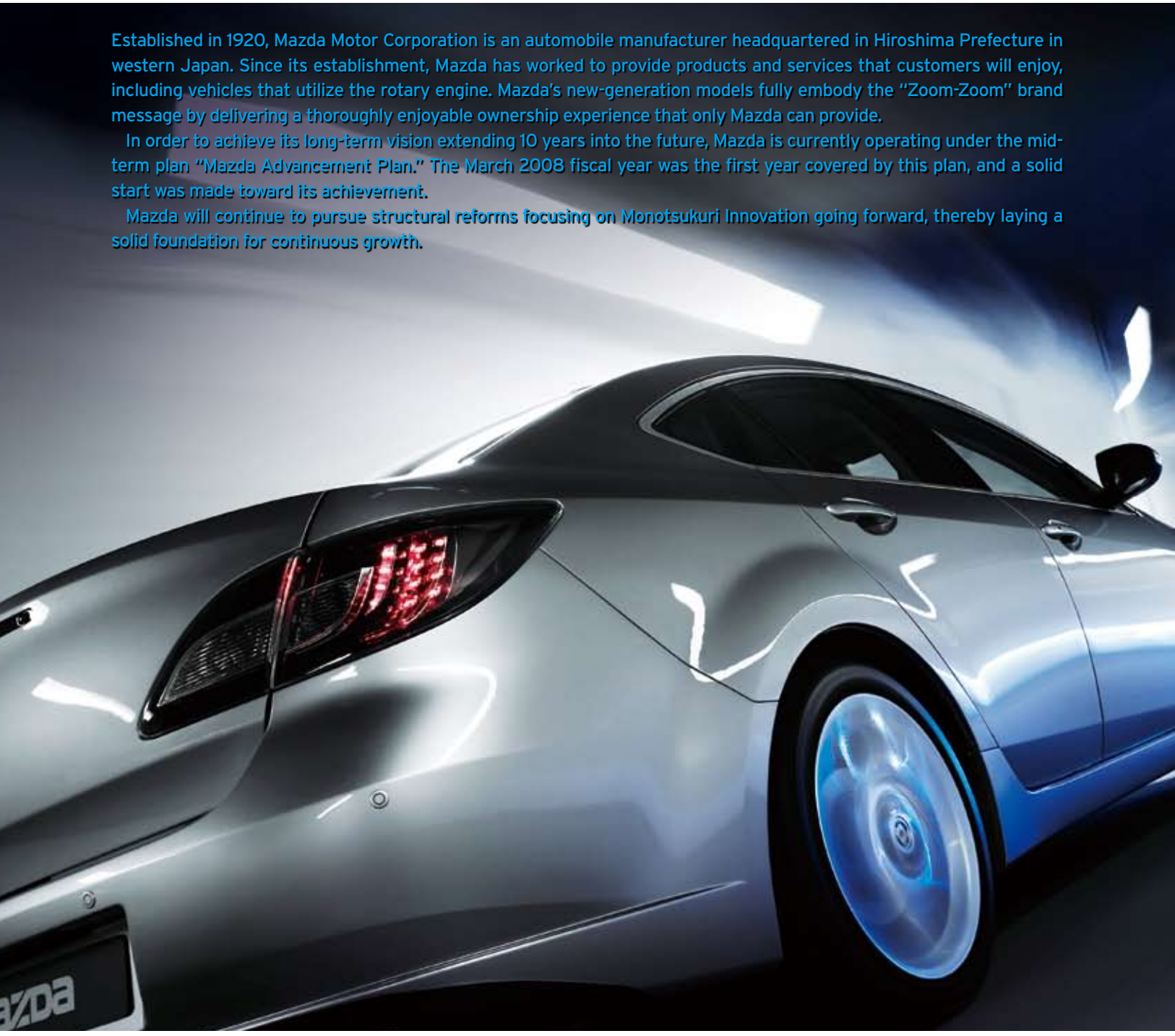
Annual Report 2008

Year ended March 31, 2008

Established in 1920, Mazda Motor Corporation is an automobile manufacturer headquartered in Hiroshima Prefecture in western Japan. Since its establishment, Mazda has worked to provide products and services that customers will enjoy, including vehicles that utilize the rotary engine. Mazda's new-generation models fully embody the "Zoom-Zoom" brand message by delivering a thoroughly enjoyable ownership experience that only Mazda can provide.

In order to achieve its long-term vision extending 10 years into the future, Mazda is currently operating under the mid-term plan "Mazda Advancement Plan." The March 2008 fiscal year was the first year covered by this plan, and a solid start was made toward its achievement.

Mazda will continue to pursue structural reforms focusing on Monotsukuri Innovation going forward, thereby laying a solid foundation for continuous growth.



Corporate Vision

VISION

To create new value, excite and delight our customers through the best automotive products and services.

MISSION

With passion, pride and speed, we actively communicate with our customers to deliver insightful automotive products and services that exceed their expectations.

VALUE

We value integrity, customer focus, creativity, and efficient and nimble actions and respect highly motivated people and team spirit. We positively support environmental matters, safety and society. Guided by these values, we provide superior rewards to all people associated with Mazda.

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In the March 2008 fiscal year, Mazda achieved its seventh consecutive year of growth in revenue and profit and made a solid start in the first year of its new mid-term plan. However, the operating environment for the automobile industry is becoming increasingly challenging, posing the question of what level of growth Mazda will be able to achieve in the future. In this section, President and CEO Hisakazu Imaki talks about the factors behind Mazda's strong performance in the March 2008 fiscal year and the strategy going forward.

16 **Special Feature: Mazda's Initiatives in Structural Reform and Increasing Brand Value**
The achievement of the targets included in the mid-term plan will require automobile development and manufacturing that embodies "Zoom-Zoom," as well as higher profit margins through significant product development and manufacturing efficiencies. This special feature introduces our initiatives in Monotsukuri Innovation and increasing brand value, which are the keys to achieving these targets.
- Pursuing Structural Reform through Monotsukuri Innovation
- Aiming to increase brand value through a global, unified brand strategy

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Forward-Looking Statements

Statements made in this annual report with respect to Mazda's plans, strategies and future performance are forward-looking statements based on management's assumptions and beliefs in the light of information currently available, and involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to: sudden changes in general economic conditions in Mazda's markets and operating environment; exchange rates, particularly appreciation of the yen against the U.S. dollar and the euro; the ability of Mazda and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost-effective way; and fluctuations in stock markets. Accordingly, actual results could differ materially from those contained in any forward-looking statements.

Note on Model Names

Unless otherwise stated, model names appearing in this annual report are those generally used in international markets. In some cases, names used in the domestic market differ: Mazda2 (in Japan: Mazda Demio), Mazda3 (Mazda Axela), Mazda5 (Mazda Premacy), Mazda6 (Mazda Atenza), Mazda MX-5 Miata/Mazda MX-5 (Mazda Roadster).

Consolidated Financial Highlights

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

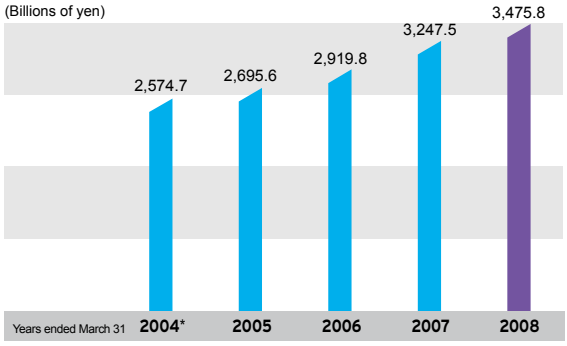
		Millions of yen		Thousands of U.S. dollars*1	% change
	2006	2007	**2008**	**2008**	2008 vs 2007
For the year:					
Net sales	¥2,919,823	¥3,247,485	**¥3,475,789**	**$34,757,890**	7.0%
Operating income	123,435	158,532	**162,147**	**1,621,470**	2.3%
Income before income taxes	117,468	118,450	**143,117**	**1,431,170**	20.8%
Net income	66,711	73,744	**91,835**	**918,350**	24.5%
Capital expenditures	72,070	79,641	**75,518**	**755,180**	(5.2)%
Depreciation and amortization	45,805	47,045	**66,460**	**664,600**	41.3%
Research and development costs	95,730	107,553	**114,400**	**1,144,000**	6.4%
At the year-end:					
Total assets	¥1,788,659	¥1,907,752	**¥1,985,566**	**$19,855,660**	4.1%
Equity*2	407,208	479,882	**554,154**	**5,541,540**	15.5%
		Yen		U.S. dollars*1	
Amounts per share of common stock:					
Net income*3	¥ 51.53	¥ 52.59	**¥ 65.21**	**$0.65**	24.0%
Cash dividends applicable to the year*4	5.00	6.00	**6.00**	**0.06**	0.0%
Equity*5	284.28	336.45	**391.82**	**3.92**	16.5%
		%			
Financial data:					
Return on assets (ROA)	3.8	4.0	**4.7**		0.7 points
Return on equity (ROE)*6	20.0	16.9	**17.9**		1.0 points
Equity ratio*6	22.3	24.8	**27.8**		3.0 points
Consolidated dividend payout ratio	9.7	11.4	**9.2**		(2.2) points

( ) indicates minus

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2008, of ¥100 to US$1.
2. To conform with March 2007 fiscal year figures, and the current fiscal year, for the March 2006 fiscal year, minority interests have been included in equity.
3. The computations of net income per share of common stock are based on the average number of shares outstanding during each fiscal year.
4. Cash dividends per share represent actual amounts applicable to the respective years.
5. The amounts of equity used in the calculation of equity per share, return on equity, and equity ratio exclude minority interests (and, for 2008 and 2007, stock acquisition rights).
6. The amounts of equity exclude minority interests (and, for 2007 and 2008, stock acquisition rights).

Net sales

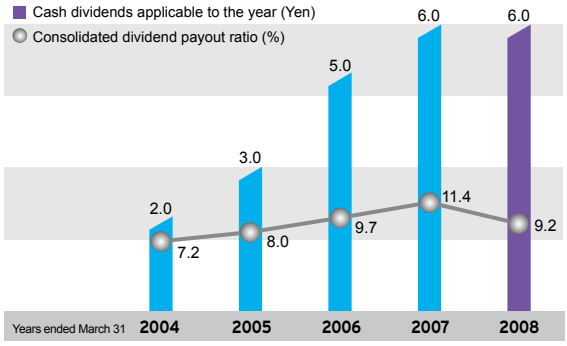
Net sales **+7.0%**



* Excluding the effect of a change in fiscal years at overseas subsidiaries.

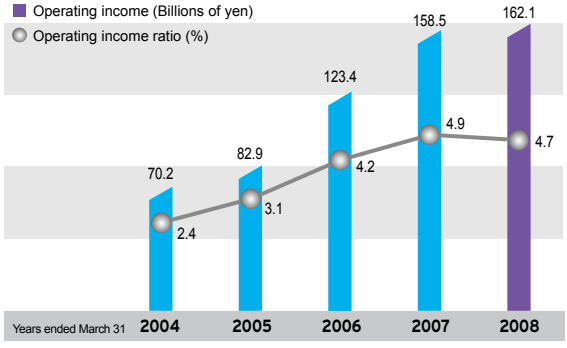
Cash dividends applicable to the year / Consolidated dividend payout ratio

Consolidated dividend payout ratio **-2.2 POINTS**



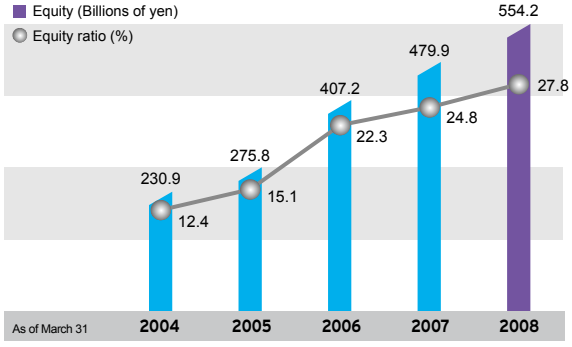
Operating income / Operating income ratio

Operating income **+2.3%**



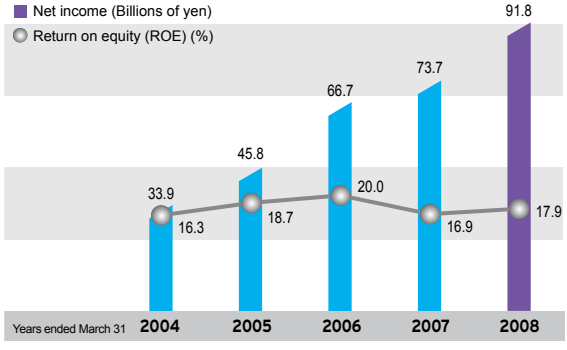
Equity / Equity ratio

Equity **+15.5%**



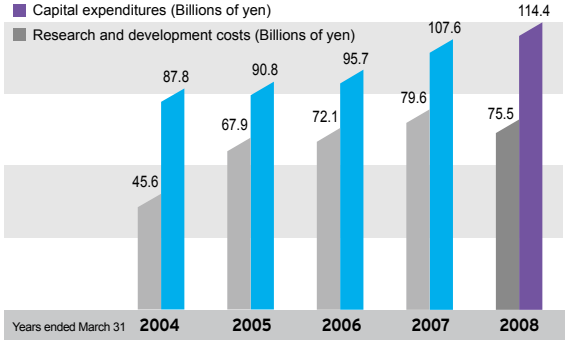
Net income / Return on equity (ROE)

Net income **+24.5%**



Capital expenditures / Research and development costs

Research and development costs **+6.4%**



At a Glance

Years ended March 31

Net sales

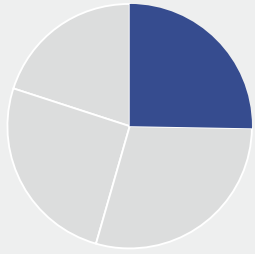
	Billions of yen					% change
	2004*	2005	2006	2007	**2008**	2008 vs 2007
Japan	¥ 846.2	¥ 845.6	¥ 887.7	¥ 887.3	**¥ 880.1**	(0.8)%
North America	772.7	761.7	844.0	1,017.9	**1,015.3**	(0.3)%
Europe	515.1	634.2	668.9	789.1	**888.6**	12.6 %
Other areas	440.7	454.1	519.2	553.2	**691.8**	25.1 %
Total	2,574.7	2,695.6	2,919.8	3,247.5	**3,475.8**	7.0 %

( ) indicates minus

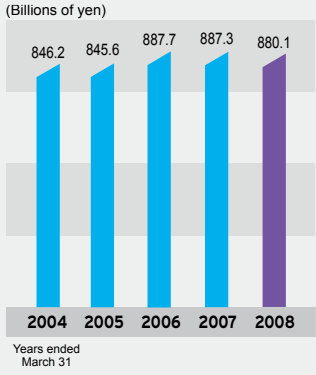
* Excluding the effect of a change in fiscal years at overseas subsidiaries.

[Japan]

Net sales
(March 2008 fiscal year)

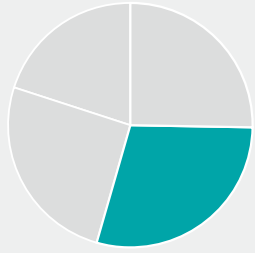


Net sales

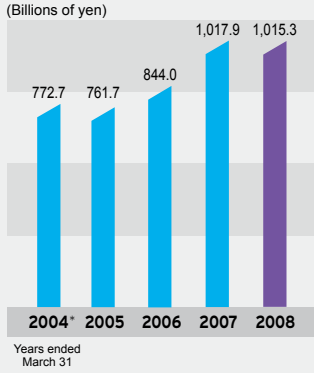


[North America]

Net sales
(March 2008 fiscal year)

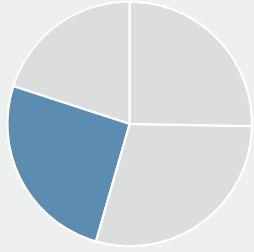


Net sales

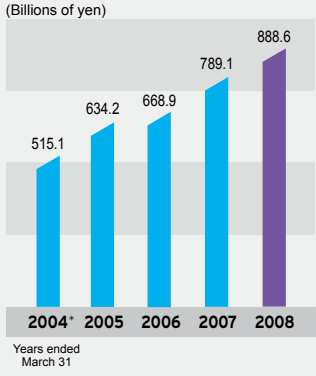


[Europe]

Net sales
(March 2008 fiscal year)



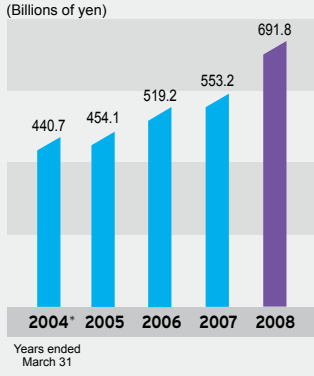
Net sales



[Other areas]

Net sales
(March 2008 fiscal year)

Net sales



* Excluding the effect of a change in fiscal years at overseas subsidiaries.

Sales volume by major markets

	Thousands of units					% change
	2004	2005	2006	2007	**2008**	2008 vs 2007
Japan	277	284	285	261	**256**	(1.9)%
North America	342	335	344	380	**406**	6.8 %
Europe	250	273	282	304	**327**	7.4 %
China	91	96	130	129	**101**	(21.8)%
Other	203	216	235	228	**273**	20.4 %
Total	1,163	1,204	1,276	1,302	**1,363**	4.7 %

( ) indicates minus

* Until the March 2006 fiscal year, sales for Puerto Rico and Turkey were included in the results of other. However, from the March 2007 fiscal year, Puerto Rico sales are included in North America and Turkey sales are included in Europe.

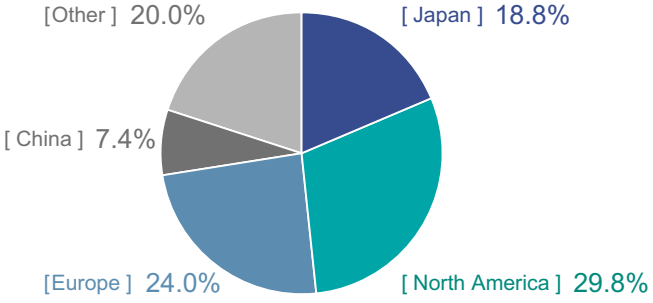
Production

	Thousands of units					% change
	2004	2005	2006	2007	**2008**	2008 vs 2007
Domestic	811	813	904	967	**1,047**	8.2 %
Overseas	254	308	307	336	**279**	(16.8)%
Total	1,065	1,121	1,211	1,303	**1,326**	1.8 %

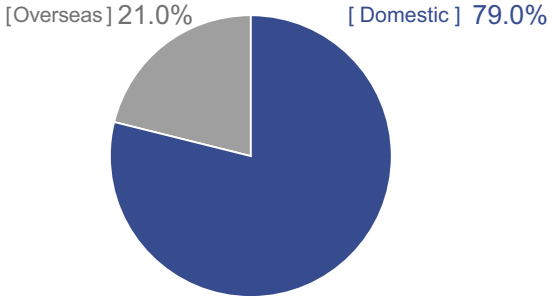
( ) indicates minus

* For overseas production, results from January 2007 correspond to Mazda vehicles on a line-off basis (excluding CKD). Previous results correspond to parts exported for the overseas production of Mazda vehicles.

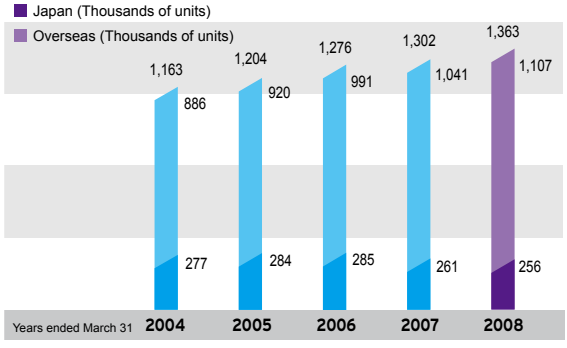
Global sales volume
(March 2008 fiscal year)



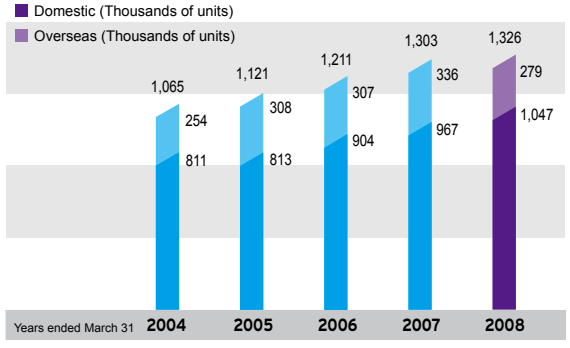
Global production
(March 2008 fiscal year)



Global sales volume



Global production

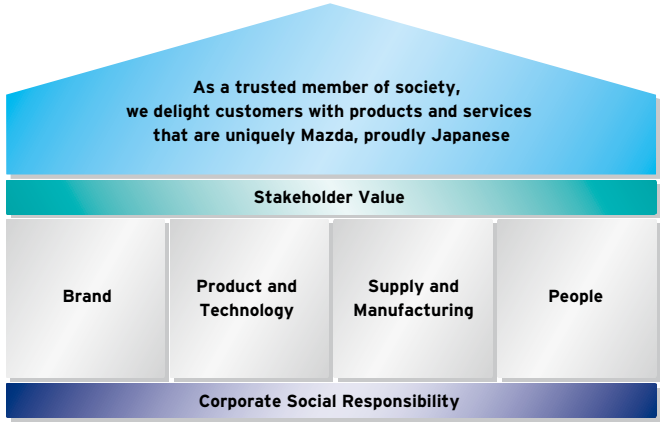


Long-Term Vision and the Mid-Term "Mazda Advancement Plan"

Long-Term Vision

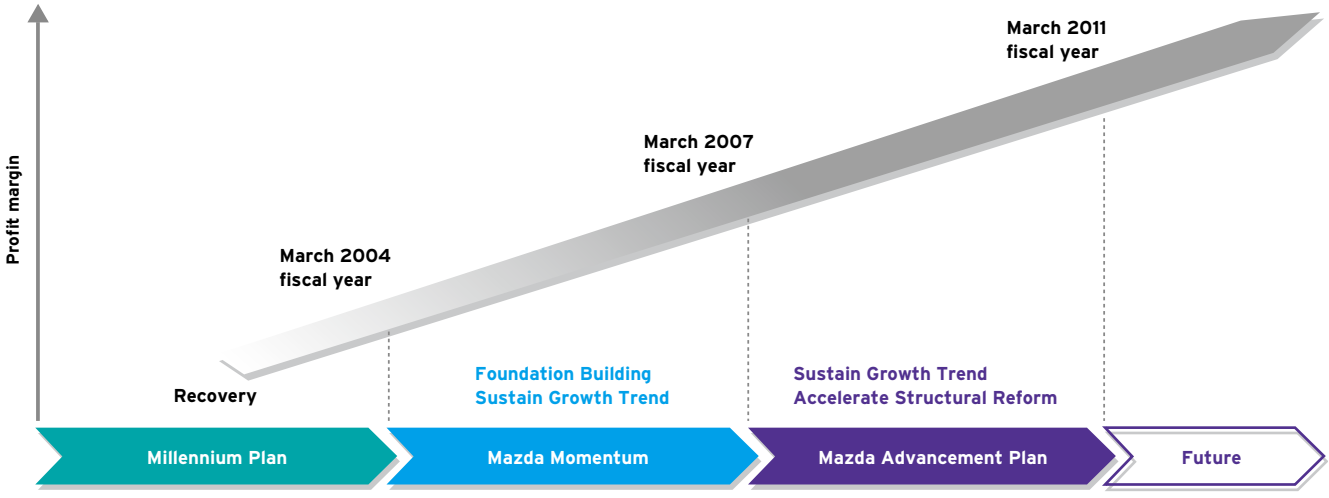
Mazda does not aim to be the largest automaker, but rather to be a company that continues to provide an exciting ownership experience that is unique to Mazda, and to thereby earn the trust and enthusiasm of all stakeholders.

In order to achieve this goal, during the period covered by the previous mid-term plan, Mazda Momentum, we formulated a long-term vision that looks 10 years into the future. Mazda is working toward the achievement of this long-term vision by creating and building on synergies with Ford, strengthening the brand in the pursuit of "Zoom-Zoom" and accelerating business efficiency with a focus on Monotsukuri Innovation.



The Mid-Term "Mazda Advancement Plan"

The Mazda Advancement Plan (MAP) is a new mid-term plan that sets growth targets for the four-year period from April 2007 through March 2011, building on the base established by Mazda Momentum and accelerating structural reforms with a focus on Monotsukuri Innovation and Cost Innovation, as a means of achieving Mazda's long-term vision. Four main areas—brand, product and technology, supply and manufacturing, and people—are being developed to support the long-term vision and achieve the numerical targets set by the MAP.



Overview of the Mazda Advancement Plan targets for the March 2011 fiscal year

- **Global sales volume**..... **1.6 million units** **or more**
- **Operating income** ..... **¥200 billion** **or more**
- **Operating income ratio**..... **6%**
- **Dividend payout ratio** ..... **Improve steadily**

Brand

Mazda is pursuing effective programs in its respective markets to steadily increase brand value. These include strengthening the product lineup, raising the level of owner loyalty and enhancing sales networks.

New models of the Mazda2 and Mazda6 were launched this year in global markets except for North America, and have been highly acclaimed. In addition, the Mazda Biante minivan was released in the Japanese market in July 2008. We will continue to enhance the product lineup going forward by introducing models that meet the needs of markets, such as Mazda6 for North America.

In terms of the sales structure, we are increasing the number of exclusive dealerships in the U.S., expanding directly operated national sales companies in Europe, strengthening the sales network through a centralized sales company for ASEAN countries and developing globally the steps taken to raise the level of customer satisfaction in Australia. In addition, as part of our efforts to enhance sales strength, all sales companies are pursuing the "Brand @ Retail" strategy by creating showrooms that give visitors a "Zoom-Zoom" experience.

The new Mazda2 was awarded "2008 World Car of the Year."

Product and Technology

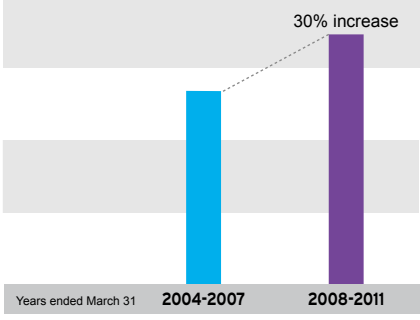
While aiming to accelerate for product-led growth, Mazda is also developing technologies that will take the pleasure of driving and environmental and safety features to their next levels. To this end, the plan for the four years covered by the MAP is to increase R&D spending by 30% and capital expenditures by 50% compared with the previous four-year period.

The March 2008 fiscal year saw the pace of investments for the future proceed as planned. R&D spending increased by ¥6.8 billion from the previous year, to ¥114.4 billion, as a result of increased development expenses for new models and next-generation powertrains. Capital expenditures for new products continued as well, increasing manufacturing capacity for completed vehicles at domestic assembly plants and for engines.

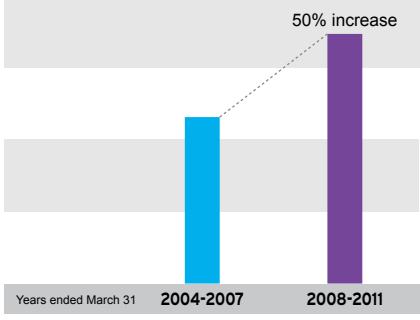
Development of new technologies for the major advances being sought in the next generation of products, scheduled for release from 2011, is also accelerating. By promoting Monotsukuri Innovation, the development of leading technologies is being reinforced with a focus on power-trains and platforms, and a solid business foundation is being built.

Investing in development

R&D spending



Capital expenditures



Supply and Manufacturing

Mazda is increasing manufacturing capacity, taking into account market demand and resources available for allocation.

Domestic manufacturing capacity increases at the Hiroshima plant and the Hofu plant brought their combined annual manufacturing capacity to 996,000 units (an 11% increase from the previous year), and total domestic production exceeded one million units during the year. Following the engine plant, a vehicle assembly plant in Nanjing, China, began producing the new Mazda2. In addition, the building of a new passenger vehicle plant in Thailand is proceeding as planned, with manufacturing of small passenger vehicles set to start during 2009. We are also taking steps toward the realization of flexible manufacturing that allows for "changes in models and volumes," to speedily address changes in unit volumes and the introduction of new models with a minimum investment, as we work to improve business efficiency under the Monotsukuri Innovation banner.

People

Individual employees are the driving force behind the Mazda Group's growth. For Mazda to achieve even higher growth, it is essential for each employee to take initiative on their own, with a strong sense of purpose and determination. The cultivation of human resources is one of the pillars of Mazda's long-term strategy, and the Company is actively involved in human resource development.

One of these activities is the Mazda Business Leader Development program, in which all employees participate. This program is held every year to provide employees with an opportunity to discuss the current state and future direction of the Company, and to encourage each employee to take action on their own toward achieving our long-term vision. In addition, the Global Leadership Program is a training program to cultivate the next generation of leaders, using practical activities to refine leadership, provide a broad-ranging perspective and foster the capability to think strategically, as we cultivate the next generation of managers to lead the Mazda Group.

Joint venture passenger vehicle plant with Ford Motor Company and Changan Automotive Group in Nanjing, China.

To Our Shareholders

Representative Director, Chairman of the Board, President and CEO Hisakazu Imaki

Mazda is moving toward the achievement of its current mid-term plan —the Mazda Advancement Plan—by increasing brand value through product-led growth and accelerating cost innovations.

Mazda does not aim to be the largest automaker, but rather aims to be a company that continuously provides "Zoom-Zoom" branded products and services which are only available at Mazda, and to gain the trust and appreciation of all stakeholders.

In order to realize this corporate image, we have established a long-term vision that looks 10 years into the future. Under the four-year mid-term "Mazda Advancement Plan" announced in March 2007, we set the goal of maintaining the growth track laid to date, while at the same time accelerating structural reform with a focus on "Monotsukuri Innovation." Today, steady progress is being made toward achieving this goal.

During the March 2008 fiscal year, the first year under the Mazda Advancement Plan, Mazda introduced highly acclaimed new models of the Mazda2 and Mazda6 in major markets and successfully achieved product-led growth. As a result, we achieved sales and profit growth for the seventh consecutive year with record profit, recording consolidated net sales of ¥3,475.8 billion, with ¥162.1 billion in operating income and a net income of ¥91.8 billion.

We see the environment in which Mazda operates as becoming increasingly challenging going forward, from the effects of external factors including unstable exchange rate trends and significantly higher prices for raw materials, combined with increasing competition among automakers. Despite this difficult operating environment, however, the entire company will strive to achieve the Mazda Advancement Plan through product-led growth and by further accelerating Cost Innovations.

At Mazda, we are constantly seeking to create new value. In addition to successful results in terms of earnings, the even better than anticipated reception of the new models we have successively introduced gives us a sense of great confidence in our ability to achieve future product-led growth. We look forward to continuing to make "Zoom-Zoom" branded cars that embody the Mazda spirit and give customers a sense of joy and inspiration.

I ask for the continued support and guidance of our shareholders and investors going forward.

July 2008

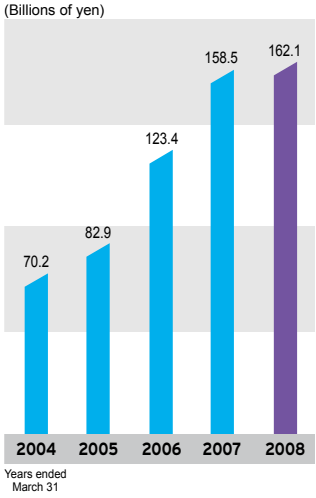
Representative Director, Chairman of the Board, President and CEO

A Conversation with the President

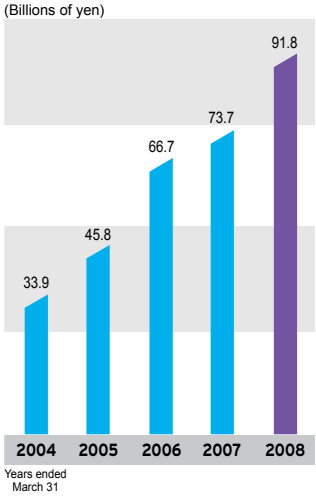
Controlling the balance among sales, manufacturing, and development strengths to realize sustainable growth.

Operating environment and appraisal of results

Operating income



Net income



1. Looking back on the March 2008 fiscal year, how would you describe Mazda's operating environment?

The economic environment contained many elements of risk and uncertainty for Mazda both in Japan and overseas, with unstable international capital markets, a global economic slowdown and significantly higher prices for energy and crude oil. Looking at Japan, exports continued to grow and there was a growth trend in corporate capital investment, but on the other hand prices of domestic corporate goods and consumer prices rose against the backdrop of high international commodity prices. There was also a trend of declining consumer sentiment, with a drop in housing investment and weak unit sales of new cars. The effect of these factors was further exacerbated by exchange rate fluctuations, leading to a slowdown in the domestic economy.

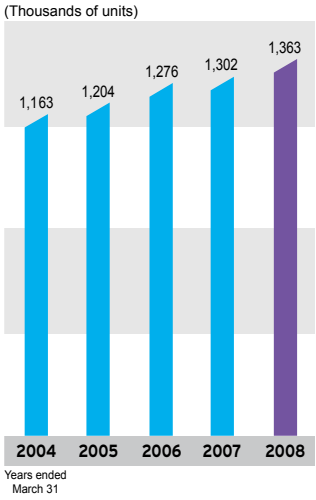
Given this background, the environment for the automobile industry is becoming increasingly difficult, and I expect competition among companies, focusing on cost competitiveness, to intensify.

2. Given this environment, what is your appraisal of Mazda's March 2008 fiscal year results?

Given the difficult environment, with a jump in raw material prices and weakening in the North American sales environment, I can take a positive view of the fact that Mazda achieved record profit while increasing investment. Fixed expenses including R&D spending and capital investment remained at high levels, but with global sales growth and cost reductions that more than offset the rise in raw material prices, we achieved our seventh consecutive year of revenue and profit growth, with record profit at all levels.

I can therefore say that Mazda is off to a solid start in this first year of the Mazda Advancement Plan which we announced last year.

Global sales volume



Progress under the Mazda Advancement Plan

3. What are the factors behind this solid start in the first year of the Mazda Advancement Plan?

I consider the main factor to be the fact that we were able to achieve product-led growth again this year. The new Mazda2 was named the "2008 World Car of the Year," a new Mazda6 was introduced in all markets except for North America and the CX-9 was chosen as the "2008 North American Truck of the Year." These models exemplify Mazda's "Zoom-Zoom" brand message, and were highly acclaimed by customers in Japan and around the world. With the contributions from these models, record sales were achieved in Europe and unit sales grew in other markets as well.

As a result, global sales grew 5% from the previous year, to 1,363 thousand units, and excluding the effect from the discontinuation of production of Mazda vehicles in Hainan, China, actual growth was 11%.

4. What is the current state of progress under the Mazda Advancement Plan?

Mazda's long-term vision is to "Provide joy to customers through products and services that are uniquely Mazda, as a trusted member of society and with pride as a Japanese automaker." In March 2007, we announced the new mid-term Mazda Advancement Plan for the four years through to the March 2011 fiscal year, which was formulated to further strengthen the base built under the previous mid-term plan, Mazda Momentum.

The new plan's final-year targets for the March 2011 fiscal year are for global sales of at least 1.6 million units, operating income of at least ¥200 billion, an operating income ratio of 6% and a steady rise in the dividend payout ratio. In order to achieve these targets, we have identified four main policy areas: brand, product and technology, supply and manufacturing, and people.

First, with regard to brand, since the introduction of a new generation of models starting with the Mazda6 in 2002, Mazda has become increasingly recognized as "a manufacturer of automobiles that are exciting and fun." However, I don't think that creating a brand is just that easy. Increasing the comprehensive strength of the entire Mazda Group to ensure all people and processes are aligned with the brand is essential to creating and delivering the "Zoom-Zoom" brand experience. Therefore, in addition to reinforcing the sales network, we are striving to raise Mazda's presence in markets around the world by consistently communicating the "Zoom-Zoom" brand message and introducing products that are catered to customer needs in individual markets.

In the March 2008 fiscal year we introduced the new Mazda2, the second stage of our new-generation models, in markets around the world from July, and it was very wel received. The new Mazda2 received many awards from around the world, including Japan's "RJC Car of the Year," and made a big contribution to the achievement of our global sales target. Following on this, the new Mazda6 was released from last fall, initially in Europe,

and received much acclaim. Also, the Mazda6, developed for the North American market, is introduced from the second half of the year as planned. In this way, we were able to get off to a solid start in terms of rolling out our brand strategy.

In the next area—product and technology—the new mid-term plan calls for increases of 30% in R&D spending and 50% in capital expenditures over the period covered, compared with the previous four-year period. This means strengthening R&D to make "Zoom-Zoom" branded cars that people see as "inviting to drive, are fun to drive, and make you want to drive them again," as well as further raising the level of environmental and safety technology incorporated in Mazda cars to be a good corporate citizen that will continue to be trusted in the future.

The three major issues in terms of supply and manufacturing are to "efficiently increase supply capacity in line with growth," "enhance quality and cost competitiveness at existing facilities" and "increase capacity in the future in line with demand." In terms of enhancing quality and cost competitiveness, we are aggressively pursuing Monotsukuri Innovation, seeking to build innovative development and manufacturing processes that allow for "flexible production," with the ability to change production quantities and to introduce new models quickly and with a minimum investment, including at overseas facilities, in order to continue to build highly competitive products even at Mazda's scale of operations.

The final policy area is people, as human resources are the driving force of growth. We are now pursuing three initiatives to build on the programs we have implemented to date.

As a basis for human resource development, important work concepts were clearly identified in the "Mazda Way," and beginning with the Mazda Business Leader Development (MBLD) program held in early April 2008, we have begun rolling this out across the entire Group. In addition, programs to develop global business leaders were updated and enhanced, and measures were implemented to strengthen cooperation among human resources organizations in different countries. The second human resource initiative is on-site human resources development. This involves strengthening efforts in various areas including cultivating engineers and technicians, improving the management capabilities of administrative staff, and passing on technical skills and know-how, toward the achievement of Monotsukuri Innovation. The third initiative is to create a working environment and organizational culture in which each individual enjoys their work. We are promoting workplace efficiency, and expanding employment options and promoting various local activities to improve the work-life balance of employees. Through these three initiatives, I hope to further accelerate growth by promoting the development and utilization of human resources again in the March 2009 fiscal year.

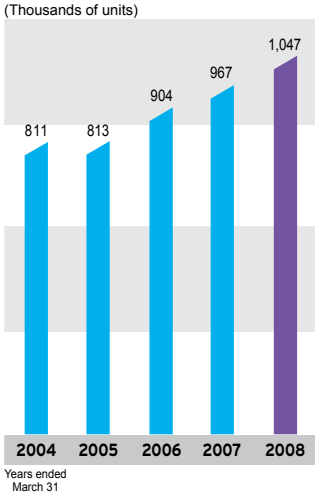
Further, in addition to the four key measures in the Mazda Advancement Plan, we will respond to the increasingly challenging operating environment and the intensification of competition that we have experienced recently by accelerating the implementation of our Cost Innovation initiatives from the March 2009 fiscal year.

We will implement Companywide Cost Innovation initiatives in all areas, from development, manufacturing, and purchasing through to sales and marketing. We will aim to achieve levels of efficiency not possible using previous methods and to radically reform our cost structure. Through these efforts, at the same time as increasing our competitiveness by making our products more attractive, we will be able to prioritize the allocation of resources to those activities that are indispensable to our survival as a company, such as forward-looking investment.

5. How are you proceeding with the plan to increase investment under the Mazda Advancement Plan?

With regard to increasing supply capacity, manufacturing capacity was increased during the year at the Hiroshima plant and the Hofu plant in Yamaguchi, increasing annual capacity at these two plants by 98,000 units in November 2007 as planned. In China, the CFME engine plant, which employs the Mazda production method, commenced operations in April 2007, and in October the CFMA Nanjing vehicle assembly plant began mass production. This capacity increase represented the realization of synergies with Ford. Construction is also proceeding on the new passenger vehicle plant in Thailand, which is scheduled to commence operations during 2009. Through these efforts, we are laying the foundation to achieve the sales target of 1.6 million units in the March 2011 fiscal year.

Production (Domestic)



Capacity at domestic manufacturing plants (Thousands of units)

	March 2007 fiscal year	March 2008 fiscal year	Change
Hiroshima plant	484	515	31
Hofu plant (Yamaguchi)	414	481	67
Total	898	996	98

Capacity at major overseas manufacturing plants[*1] (Thousands of units)

	March 2008 fiscal year
AAI (U.S.)	240
AAT (Thailand)[*2]	175
CFMA (Nanjing)	160

*1. Includes production of Ford brand vehicles
*2. Includes CKD

Results forecast

6. What is your outlook for next year's results?

The March 2009 fiscal year is shaping up to be a very difficult year for Mazda. In addition to unstable exchange rate trends, prices for raw materials are significantly higher than anticipated. On top of that, the main markets of Japan, North America and Europe are

maturing, leading to intensified competition in each market. Accordingly, our March 2009 fiscal year forecasts reflect this severe situation. We are expecting a ¥47.1 billion decline in consolidated operating income, to ¥115.0 billion, our first decline since the March 2001 fiscal year.

Nevertheless, we absolutely must achieve this forecast to secure Mazda's future growth. Through resourcefulness and planning, we will raise business efficiency and ride out this difficult period.

7. What must Mazda do to continue to grow going forward?

I see Mazda's ability to survive in the automobile industry as hinging on how we balance three elements—"sales strength," "manufacturing strength" and "development strength."

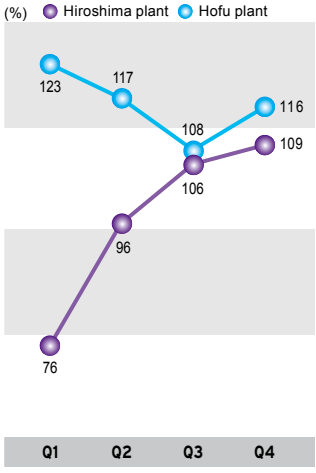
For example, meeting increasingly diversified customer needs means increasing parts and models, which leads to increased costs in the manufacturing process. If we don't have both the development strength to create true Mazda cars and the manufacturing strength that leads to cost efficiencies, Mazda cannot hope to grow in the future.

At the same time, if a situation develops whereby manufacturing strength increases but sales strength weakens, we would get caught up in price competition to maintain market share, preventing us from achieving our goal of raising brand value.

I am pleased to often hear from dealerships that they "want more cars to sell." Nevertheless, all of our plants are operating at full capacity, and we cannot fully meet these expectations. Without a manufacturing organization that can fully meet demand, it doesn't matter how much we increase sales strength, but I consider this situation of supply not keeping up with demand to be favorable for Mazda as we increase our production capacity.

My objective is therefore to balance these three elements to create continuous growth for Mazda.

Plant operating ratio
(Year ended March 31, 2008)

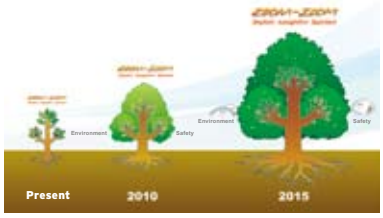


8. Various automakers are developing low-priced vehicles. What is Mazda's strategy in this area?

We don't have a near-term plan at this time, but we will continue to follow trends in the low-priced vehicle segment.

Currently, however, both the development and manufacturing organizations are operating at full capacity, and putting efforts into another segment would interrupt progress under our current plan. In terms of development, in particular, we are giving priority to the global development of B-class, C-class and C/D-class cars, and we aren't at a stage to emphasize other segments. I also recognize that one of the factors behind past failures was that we tried to do too much by expanding into new segments, and now that we are on a path of earnings recovery we cannot repeat those past mistakes. Going forward, I want to further narrow the focus of our activities and achieve both steady and rapid implementation.

Environmental and safety measures



9. Mazda is addressing environmental and safety issues under the "Sustainable Zoom-Zoom." What are your thoughts and what measures are being implemented in this area?

The concept of "Sustainable Zoom-Zoom" aims for harmony between the joy of driving and the environmental and safety features incorporated into Mazda vehicles. We are currently stepping up development on a next generation of vehicles for 2011 and beyond, and are working to completely renew engines, transmissions and platforms.

Unfortunately, I cannot discuss the details of products being developed for release four years into the future, but in the March 2008 fiscal year—the first year of "Sustainable Zoom-Zoom"—Mazda decided to participate in Norway's national HyNor project*, and a memorandum of understanding was signed in November 2007.

With this project, we have agreed to cooperate in the development of hydrogen fuels and Hydrogen-powered vehicles, and we intend to progressively deliver a total of 30 Mazda RX-8 Hydrogen RE vehicles to HyNor from the summer of 2008. In addition, permission for public road testing of the new Mazda Premacy Hydrogen RE Hybrid has been received from the Ministry of Land, Infrastructure, Transport and Tourism. We are carrying out public road testing with the aim of beginning lease sales during the March 2009 fiscal year.

Through these programs, Mazda is making steady progress in developing hydrogen rotary engines for an environmentally friendly automobile society. Initiatives toward the reduction of CO_2 emissions are also underway, and our plan is to raise the average fuel economy of all Mazda vehicles sold globally by at least 30% by 2015, through powertrain renovations and the introduction of new platforms.

Returns to shareholders

10. Finally, what are your views on how the Mazda Group can increase shareholder value?

I am fully aware of the need to meet the expectations of our shareholders concerning dividends. However, the automobile industry's efforts in the areas of safety and the environment will require huge investments going forward. I therefore intend to work on giving a greater return to shareholders, while at the same time continuing to invest for the future.

I ask for the continued support and understanding of shareholders and investors in the future.

* HyNor: A state project in Norway to build a hydrogen energy infrastructure in that country. Please refer to P.42.

Special Feature

Mazda's Initiatives in Structural Reform and Increasing Brand Value

The achievement of the targets included in the mid-term plan will require automobile development and manufacturing that embodies "Zoom-Zoom" branding, as well as higher profit margins realized through significantly improved product development and manufacturing efficiencies. This special feature introduces our initiatives in Monotsukuri Innovation and increasing brand value that are essential to achieving these targets.

Pursuing Structural Reform through Monotsukuri Innovation

Monotsukuri Innovation is the cornerstone of Mazda's growth strategy for the long term. For us, Monotsukuri means creating products that deliver new value, and includes concept building, technological development, and manufacturing and supplying vehicles.

[Monotsukuri Innovation]

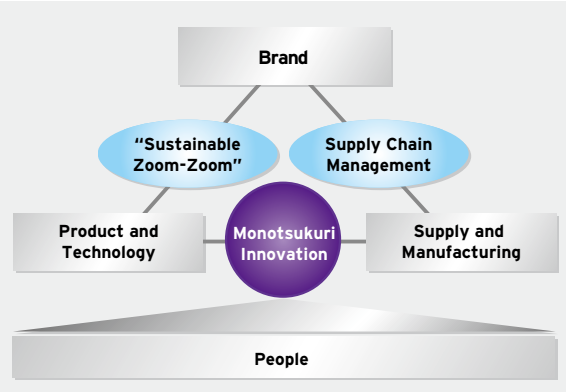
In March 2007, Mazda announced the Mazda Advancement Plan (MAP), a new mid-term plan covering the four-year period ending March 2011. This plan sets targets for the year ending March 2011 of global retail sales of 1.6 million units or more, consolidated operating income of ¥200 billion or more, and a consolidated operating income ratio of 6%. To achieve these targets, it is imperative that we meet the diverse needs of customers by manufacturing cars with broader appeal embodying "Sustainable Zoom-Zoom" branding and realize greater buisiness efficiency through improvements in product development and manufacturing efficiencies. In order to balance the seemingly contradictory goals of strengthening product competitiveness while making the developing and manufacturing processes more efficient, the development, manufacturing and purchasing organizations have been collaborating on Monotsukuri Innovation, aiming to deliver diverse models to markets by pursuing a common, completely new way of thinking across model lines, realized through the integration of the development–production process.

Structural reforms under the banner of Monotsukuri Innovation

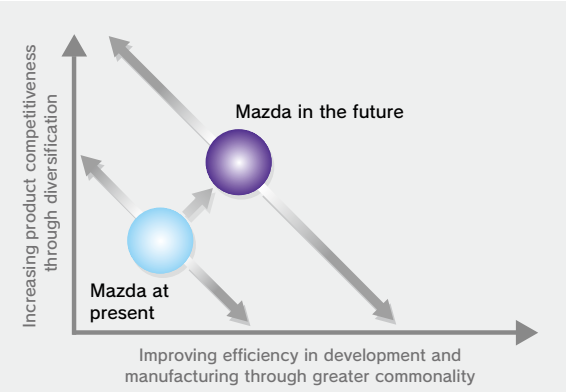
Being a winner in an increasingly competitive automotive market requires meeting the diverse needs of customers by pursuing optimal specifications for each model in each market. Traditionally, dedicated development was done for each new model, and then specialized manufacturing lines were built to produce each one of them. This, however, required many specialized parts and equipment and impaired cost competitiveness. Given this situation in which numerous models were produced in different volumes, with fluctuations in production volumes for each model, a breakthrough was required to raise quality and brand strength, as well as profit margins. That breakthrough was "new commonalities across model lines."

Monotsukuri Innovation was born from this concept. Looking 5 to 10 years into the future, through the collaboration of the development, manufacturing and purchasing organizations, many products will be efficiently developed and manufactured with common development programs and manufacturing processes using integrated planning for models to be introduced in the future, spanning market segments, models and model classes. We are aiming to raise operational efficiency by using common platforms and architectures, while at the same time building a flexible production process that can handle changes in volumes and can quickly introduce new models with a minimum of investment.

Position of Monotsukuri Innovation



Monotsukuri Innovation



Developing versatile Mazda engineers through Monotsukuri Innovation.

Director, Senior Managing Executive Officer
In charge of R&D
Seita Kanai

Q1. How does Mazda incorporate passion into the product development process to make vehicles embodied with "Zoom-Zoom" branding?

Unlike major automakers, Mazda's position is to focus all of its effort into one model for each market segment. My aim in all segments in all markets, to use the analogy of the strike zone in baseball, is to aim for "high-inside strikes" rather than the center, and I am always telling employees to use all their strength to make the pitch as fast as possible. "High-and-inside" represents the consistent position of Mazda's cars, meaning that they "look inviting to drive, are fun to drive, and make you want to drive them again." At the end of the day, however, we need "strikes"—throwing balls or hitting a batter is no good. Missing the strike zone means appealing to only a limited group of customers, and this does not lead to sales. "As fast as possible" expresses the firm resolve that Mazda's cars set the benchmark levels by which other cars are measured around the world. These pitches are then thrown with all of our strength.

I then aim to "deliver a definite OK to customers" in various aspects so that customers will be satisfied and affectionate toward Mazda's cars. My wish as an engineer is that through this process, everyone—customers as well as we at Mazda —will have a sense of pride.

Q2. Mazda is accelerating stractural reforms under the Mazda Advancement Plan, with a focus on Monotsukuri Innovation. What is the concept of Monotsukuri Innovation based on?

Customer needs in all markets are becoming more diverse each day. In the case of the automobile industry in particular, addressing these needs means increases in parts and models, and the resulting decline in productivity can lead to cost increases. If you compromise on costs or the attractiveness of the product, however, competitiveness will be lost. I believe that reconciling the two apparently contradictory aims of accurately addressing detailed customer needs and providing cars at competitive prices by reducing costs through mass production is essential to Mazda's growth going forward. We therefore looked 10 years into the future and did our best to predict what kind of products and technologies would be required, to move forward using integrated planning covering automobiles, systems and parts. I realize this is very difficult, but it pays off. Specifically, this means first clearly distinguishing between what can be used in common and what needs to be unique for each model. When I say "used in common," however, this does not simply mean "using the same parts" as has been done in the past. An example is the concept of a common architecture, which uses a common basic structure but with changes only in the size and sheet thickness for different models. The aim of this is to use the same development and manufacturing methods for a variety of models. Using the same manufacturing methods makes it possible to pursue mixed production.

The important point is to always design for long-term competitiveness when deciding on the common architecture. This is why we are looking for broad-ranging technological advances, or technological innovation, from all of our engineers.

Thus, Monotsukuri Innovation is how we are accenting the individuality of each model while at the same time reducing costs.

We began incorporating Monotsukuri Innovation in powertrains and platforms of mass-produced models from 2007, and are steadily expanding its scope to areas including design, interiors and exteriors.

Q3. What issues are involved in achieving the seemingly contradictory goals of strengthening product competitiveness while improving development and manufacturing efficiencies? How do you intend to overcome these issues?

The key to Monotsukuri Innovation is concurrent collaboration between the design and development side and the manufacturing side. Naturally, this includes suppliers as well. The creation of a working environment and organization that encourages reciprocal participation of manufacturing engineers in design activities, which had previously tended to be considered the sacred territory of design, and development engineers in the manufacturing process is essential to the strengthening of product competitiveness and the achievement of greater product development and manufacturing efficiencies. All engineers must work to deepen mutual discovery and mutual understanding by taking to heart the "Five Gens*" and repeatedly asking "why?"

Furthermore, if we are to survive in an environment in which the domestic market is maturing while at the same time global competition intensifies, we need to cultivate versatile engineers who are not limited to specific areas, but are able to look at automobile development in its entirety. The dismantling of the CAD and CAE units in 2006 was a step in this direction, and going forward we are aiming for a streamlined organization by reducing the number of people who support a project going forward.

Organizational strength is another name for workplace strength. Mazda uses the term "co-education" to recognize that both those doing the teaching and those being taught develop into versatile engineers through ongoing self-improvement in the course of their work. We are therefore cultivating versatile engineers to reform conventional thinking and create an organization for Mazda's future growth.

* Five Gens: Genba (Workplace), Genbutsu (Real thing), Genjitsu (Reality), Genri (Theory) and Gensoku (Principle)

Q4. What are your thoughts on raising efficiencies in development and manufacturing and subsequently reconfiguring the value chain?

Mazda is working to eliminate all waste in order to raise overall business efficiency. The biggest waste in development comes from "redoing," or design changes. The effect of design changes is not limited to the development organization, however, as they can also create large losses in many back-end operations like retesting, remolding and reevaluating mass production criteria. The key, therefore, is how to increase the quality of the design, before prototyping begins. We are working to raise the level of design quality so that problems that were previously discovered in testing after the prototype was built, on the factory floor or in the market, can be identified and corrected to the extent possible on paper or computer. Sometimes this means it is necessary to work in stages, making a prototype of one required part, and then moving on to the overall design after that part has been evaluated. We began to gradually emphasize this approach from about 2003, when we were developing the Mazda Verisa.

If we can successfully use this approach to raise development efficiency, reduce production lead times and simply derive a wide range of variations, we will be able to quickly and accurately address whatever changes occur in customer preferences and the societal environment. This is an important element in raising the value of the entire value chain, from development and manufacturing to sales and service.

Q5. What is the status of progress made under the "Sustainable Zoom-Zoom" strategy and how is Mazda approaching environmental issues?

We announced the "Sustainable Zoom-Zoom" long-term vision for Mazda's technology development in 2007, as a way to incorporate environment and safety aspects into the "Zoom-Zoom" brand message.

We stayed with "Zoom-Zoom," which was launched around 2001, because we wanted the message to catch on quickly, but of course, well before "Zoom-Zoom" environment and safety were among our top priorities. For example, we aggressively launched vehicles to meet the SU-LEV standard, Japan's toughest low-emission vehicle benchmark. In Europe, we were the first company in the industry to meet Euro4 regulation on diesel emissions, achieving compliance in 2002 even though the restrictions did not actually come into effect until 2005. We have also pursued safety technology with features like MRCC (Mazda Radar Cruise Control). "Sustainable Zoom-Zoom" reaffirms the steps Mazda has taken to date and clearly expresses the idea of providing a sustainable and exciting automobile society. This plan includes a wide variety of environmental and safety measures, and is currently progressing on track.

In addition, in June 2008 we announced specific measures to reduce CO_2 emissions, with numerical targets. We plan to improve by at least 30% the average fuel economy of all Mazda vehicles sold around the world by 2015 by remodeling powertrains and introducing new platforms.

We are also making steady progress in technologies for hydrogen rotary engines (RE). We have developed technologies that increase power by 40% and double the range of the new Mazda Premacy Hydrogen RE Hybrid, and are currently carrying out public road trials.

Please watch for further enhancements to Mazda's automobile development in the future.

[Monotsukuri Innovation]

Development Initiatives

Monotsukuri Innovation in the area of development is concerned with achieving common architectures and designs that use those common architectures and take account of the production process through integrated planning.

For example, the development of a new platform—the frame of the car with the engine and transmission attached—requires a large investment. Currently, Mazda has four main platforms, for B-class, C-class, C/D-class, and sports cars. With integtated planning, it is possible to consolidate these architectures and make all models in all grades and specifications by combining various different upper bodies and engines. The consolidation of architectures also promotes the use of a common basic structure for parts and systems.

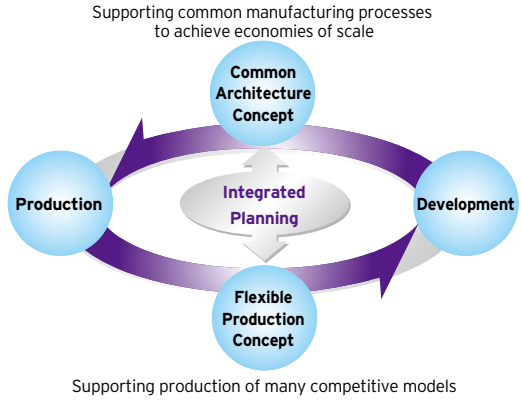
For example, the traditional way of designing engines required specialized development, equipment and processes for each engine model, from development through production. With Monotsukuri Innovation, however, we are planning to first develop the best form of combustion, and then derive a variety of engines by applying that theory to engines of all sizes.

This common use across platforms and market segments therefore aims to shorten development times, improve investment efficiency, develop competitive products that use the latest technologies, and provide consistent quality. At the same time, it allows diversity that makes it possible to address customer needs at a detailed level.

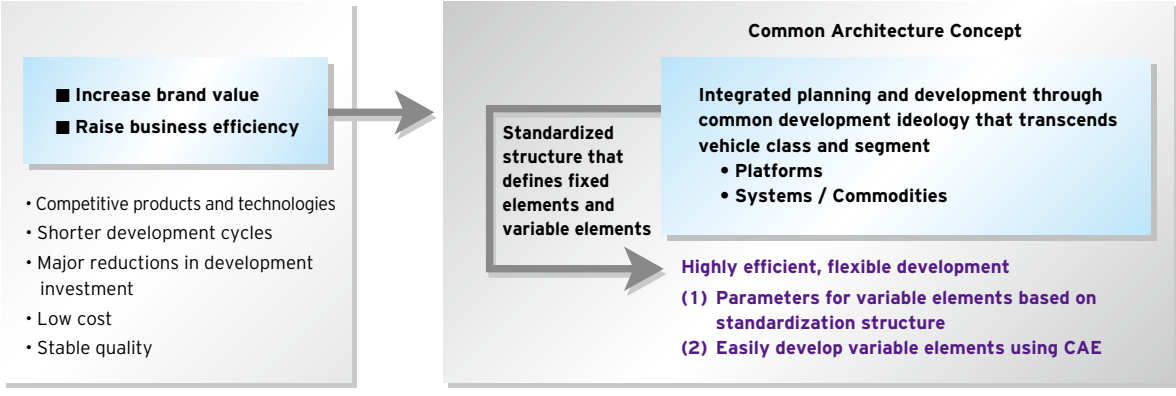
It is also important for engineers to thoroughly understand the latest manufacturing technologies and build a close working relationship with manufacturing plants, which will require reforms in the development organization and human resources. In recent years in particular, the development environment has undergone drastic changes due to intensified competition in environmental technology development and enhancement of information technology. This makes it impossible to keep pace using a traditional development organization based on divided operations that count of mannuals. For this reason, Mazda restructured its research and development organization in June 2006. This reorganization redistributed engineers to create a Monotsukuri workplace by eliminating both the Vehicle Layout Engineering & Computer Aided Design (CAD) Department, which was responsible for computer-based design, and the Computer Aided Engineering (CAE) Department, which was responsible for production simulations and analysis.

The purpose of these reforms was to strengthen Mazda's product development capabilities for the future

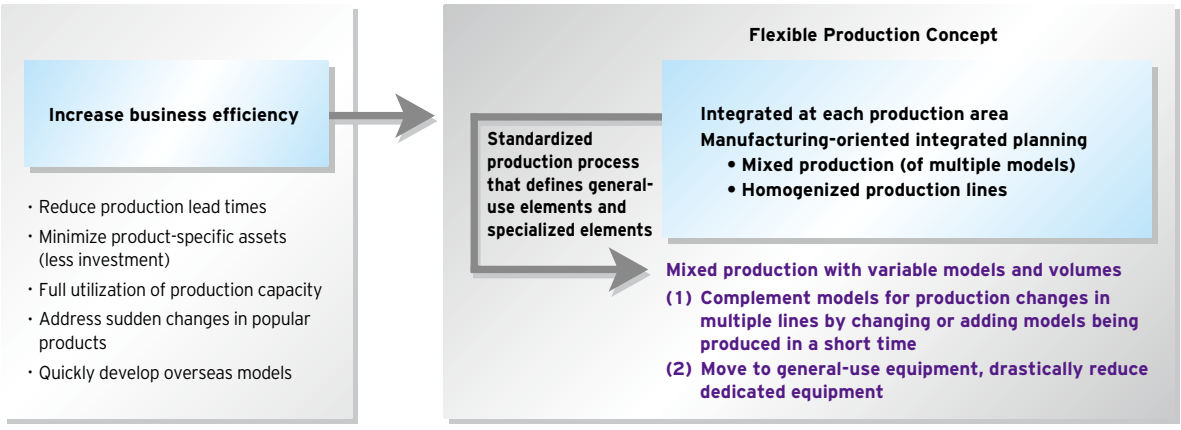
Monotsukuri Innovation Diagram



Common Architecture Concept



Flexible Production Concept



by giving engineers a broad base of knowledge and experience in all development-related areas so that they can understand the Monotsukuri workplace and carry out their design and development work based on an appreciation of the Monotsukuri working environment.

Manufacturing Initiatives

Mazda is working to expand manufacturing footprints and raise manufacturing efficiency as part of its basic policy of meeting growth in global demand by increasing supply capacity in line with growth, enhancing quality and cost competitiveness at existing facilities and increasing capacity in the future in line with demand. Going forward, we will have to build an extremely flexible production system based on Monotsukuri Innovation in order to achieve our objectives to increase global production capacity and raise manufacturing efficiency.

A flexible production system makes it possible to shorten production lead times, reduce asset requirements, fully utilize production capacity, respond to changes from hot-selling models and quickly introduce models for different markets. It also enhances cost competitiveness by allowing us to produce the most appropriate number of units for each of our many models, even if the number of units per model is small.

Variable model and volume production, which can handle changes in models and volumes by efficiently responding to the switch in production to a different model or also, within a short period of time, changes in volumes and models being produced, is one kind of flexible production system. Implementing this type of variable model, variable volume production results in homogenized manufacturing lines that enable the production of complementary models for production changes and short periods of preparation for production when new models are added. In addition, using generic equipment and minimizing dedicated equipment achieves maximum performance with a minimum investment.

We are also making steady progress in collaborating with suppliers through Monotsukuri Innovation in procured parts. At the end of June 2007, we gathered together 250 suppliers and explained the Monotsukuri Innovation concept. We also began working to develop main unit structures that can be used across B, C and C/D platforms, based on the Commodity Cycle Plan 2, which divides commodity parts into 97 items and seeks cost and quality through worldwide procurement.

Another example of activities to raise manufacturing efficiency is Integrated Scheduled Production, in which production proceeds according to a schedule that includes not only Mazda's vehicle assembly lines, but also in-house parts manufacturing and parts manufacturing at suppliers. By synchronizing all manufacturing activities according to a schedule based on customer orders, we aim to deliver the product to the customer with a reduced lead time, significantly reducing inventories and eliminating costs including those incurred from the unnecessary conveyance of parts.

We will continue to accelerate Monotsukuri Innovation in manufacturing at our domestic plants, and when that has taken root we intend to roll it out across our overseas manufacturing facilities.

We will continue our persistent challenges toward Monotsukuri.

Director, Senior Managing Executive Officer
In charge of Production, Business Logistics and IT Solution
Masaharu Yamaki

Q1. With the difficult market environment expected to continue, what are you looking for on the factory floor?

The market environment is undergoing drastic changes, and the manufacturing sector is looking to efficiently deliver well timed products that meet the needs of customers. Therefore, I consider the source of an automaker's competitive strength to be its ability to balance high efficiency with a strong ability to adapt to the market.

Since the beginning of the automobile industry, all automakers have pursued efforts to increase manufacturing efficiency, and I believe those efforts will continue forever. When a company stops doing this, it will have no choice but to withdraw from the market.

Mazda has implemented a number of improvements on the factory floor. The basic principle is that when problems come to light, to address them one at a time and make steady improvements. For example, Integrated Scheduled Production involving suppliers and subcontractors means that manufacturing proceeds under a coordinated plan covering all stages from materials to final assembly, across all factories. This reduces surplus intermediate inventory while at the same time reducing lead times and quickly delivering products to customers. This also means that many things need to be understood. This is certainly the goal, but the real aim is to identify problems. Manufacturing without holding inventory means that when equipment breaks down or defects emerge, there will be an immediate effect on processes, and subsequently the problem of the equipment failure or defect comes to light. Therefore, it is necessary to prevent equipment from breaking down again in the future by preventing recurrences based on investigating the causes of breakdowns and with systematic maintenance, and thoroughly eliminate defects from a position of zero tolerance. For example, by eliminating defects in the painting process and bringing the first-time through ratio*[1] to more than 99%, subsequent processes proceed as planned without interruption. Mazda has strengthened its manufacturing process by continuously working to identify and resolve these problems, and prevent their recurrence. In addition, the TPM*[2] process we have developed over many years means that these problems are often prevented before they occur, and this also improves the manufacturing process and trains employees.

Q2. What programs to raise manufacturing efficiency have been implemented to date?

I have instructed line managers to implement programs targeting improvements of half (or double), not just 5% or 10%. If improvements of 5% or 10% are targeted, employees will think that they can be achieved by leaving the status quo unchanged. If the targets are for half (or double), however, they will change their thinking and reject the status quo, because it will be impossible to achieve the target without going into the underlying causes of the issue. With these kinds of improvement targets, everyone on the factory floor gives their all in thought and action, and this leads to success. Based on this concept, Mazda's manufacturing division has increased efficiency and eliminated waste.

Even though these efforts over many years have steadily reduced waste on the factory floor, I believe that there is still a long way to go. Much waste remains in activities and processes that have been considered valuable to date. For example, at a glance the conveyance of parts appears to have value, but it is waste. And on the assembly line, there is waste when a worker has to reach for a part. Value is created at the instant when the bolt is fastened to attach the part, and that is relative to the minimum number of parts required. On the machining line, the entire time the blade is not cutting is waste.

On the stamping line, value is only created at the instant in which the die makes contact with the metal sheet.

Looking at it this way, you can see unlimited waste that calls for improvement. If you are conscious of this waste, you will have a desire to somehow do something, and rack your brain to make an improvement. Then, if you succeed, you are even more motivated to make the next improvement. I consider it management's role to create an organizational culture that makes it possible for this type of self-initiating positive cycle of improvement to develop.

Q3. What are Mazda's strengths in terms of its ability to keep pace with the market?

Mazda's ability to keep pace with the market has long been one of its strengths. We have built a manufacturing organization that can flexibly and efficiently address the desires of customers. Specifically, with our flexible production system we can change the number of units produced by model and quickly introduce new models.

In terms of body assembly, point and final assembly lines, we have moved away from model-specific lines to versatile lines that can handle a mix of models. Taking this further, by eliminating model-specific jigs and moving to versatile jigs, while at the same time standardizing manufacturing operations, we are in the process of making it possible to change models and production volumes in all processes.

Powertrain machining lines have also moved toward being versatile with the introduction of NC machines*3, replacing the formerly prevalent model-specific transfer lines*4, as we make further progress in building lines that can handle changes in models and volumes. An example of this is the machining line that commenced mass production in the spring of 2007, which can manufacture both cylinder blocks for large V6 engines and mid-sized I4 engines.To date, we have consolidated what were previously 40 separate processes into four (parallel) processes, reducing conveyance time, which produces no value, by 90%.This has also significantly reduced line stoppages caused by equipment breakdowns, raised overall equipmentefficiency for the line as a whole to 95% from 85%, reduced lead times by 80% and reduced the number of machines by 30%.

In the fall of 2007, in order to increase production of the new Mazda2, which has proven to be a popular vehicle in markets worldwide, we were able to meet the wishes of customers for greater fuel economy by adding a small I4 engine with just one month of preparation time.

On the other hand, in the area of rough parts and stamped panels requiring dies, we have introduced initiatives that aim to reduce manufacturing lead times and investment amounts by half. As a result, investment amounts were cut in half and lead times by 80%, and we are now aiming for further reductions by one-half.

Q4. What are your plans going forward to further strengthen the manufacturing base?

Going forward we will continue to pursue flexible manufacturing lines in all areas of our automobile manufacturing. This will allow us to further satisfy customer needs by building a system complementing models among manufacturing lines that makes it possible to flexibly and quickly add or change the models being produced. This will also make it possible to quickly roll out models at overseas manufacturing facilities.

At the same time, in addition to efforts to realize this manufacturing system in terms of manufacturing technology, measures to promote commonality in product development are an imperative. We are also pursuing Monotsukuri Innovation through collaboration of Mazda's development and manufacturing organization and asking for the cooperation of our suppliers.

The success of these efforts rests entirely on people. We value our employees, and will pursue staff development as our No. 1 priority.

*1. First-time through ratio: The percentage of vehicles manufactured without being removed from the line for repairs.

*2. Total Productive Maintenance: Comprehensively maintain manufacturing equipment with the aim of reducing equipment down times, through activities conducted by small groups to improve productivity.

*3. NC machine: NC (Numerical Control) is a control system that uses numerical information to give instructions for operations being performed. This is used in NC processing using NC machine tools. The precision of the absolute position of the machine tool is important, and numerical controls are the control method and mechanism that take this into account in order to achieve that precision.

*4. Transfer line: A large-scale mass production line for machine tooled components that arranges sophisticated, specialized machines for a high degree of specialization and automation.

Aiming to increase brand value through a global, unified brand strategy

Measures to increase brand value are being implemented throughout Mazda, from R&D facilities through to front-line dealers. While developing a global, unified brand strategy, we are also pushing forward with marketing and sales activities tailored to the needs of customers in each region.

The "Zoom-Zoom" Brand Message

To strengthen emotional ties with our customers and establish Mazda as a leading brand, we have defined the Mazda brand DNA as having two key elements: personality and product. The "Zoom-Zoom" message embodies these elements. Expressing the sheer enjoyment of motion we all knew in childhood, this message reflects our determination to help customers reconnect with this feeling through Mazda cars that are packed with innovation and excitement.

MAZDA BRAND DNA

PERSONALITY	PRODUCT
Stylish	Distinctive Design
Insightful	Exceptional Functionality
Spirited	Responsive Handling and Driving Performance

[Initiatives to Enhance Brand Value]

"One Mazda" refers to the common way of thinking and working toward shared goals throughout the entire Mazda Group, encompassing all business divisions and activities. It is this unifying mindset that is the driving force behind the progress we are making in enhancing our product lineup, expanding our sales network and increasing our customer loyalty in order to continuously enhance the strength of the Mazda brand in each of our markets and help achieve the targets contained in the Mazda Advancement Plan (MAP).

In particular, the new generation of products released beginning with the Mazda6 in 2002 has been the driving force behind this product-led growth strategy, and today these models are being successively relaunched and reborn as Mazda enters a new growth stage.

Spreading the "Zoom-Zoom" brand message to a global audience

At Mazda, we are constantly mindful that the brand represents a "promise" to customers, and that delivering on this promise is our mission. Consequently, offering Mazda products and services that exceed customer expectations leads to a Mazda "ownership experience" that cannot be found elsewhere. This is the brand that Mazda works to create by connecting emotionally with our customers.

We began using "Zoom-Zoom" as our global brand message in 2002 to express the "emotion of motion" that one experiences as a child and symbolize Mazda's approach to making cars. The "Zoom-Zoom" brand message has become familiar to many people around the world. This is because, while we are globally pursuing a consistent brand strategy on the one hand, our local marketing and sales activities are constantly aligning with the interests and expectations of customers within each market on the other.

Delivering the "Zoom-Zoom" brand to customers

Delivering on the brand promise and enhancing the "Zoom-Zoom" experience have led to record sales in the March 2008 fiscal year. New models of the Mazda2 and Mazda6 were introduced globally during the year and were well received. The new Mazda2 was named the "2008 World Car of the Year" and the "2008 RJC Car of the Year," and the Mazda CX-9 won *Motor Trend* magazine's "2008 Sport/Utility of the Year" award and was named "2008 North American Truck of the Year." These awards are not just evidence of the great products, but also of the strength of the Mazda brand.

The success of a Mazda product begins at the initial development stage. It is important to understand how to best reflect the "voice of the customer" obtained from markets in the product development process. Mazda has research and development centers in its key regions to ensure customer feedback is incorporated in the development of all Mazda products. By developing products based on a full understanding of customer needs, we are able to offer products and services to customers that are aligned with and fully live up to the "Zoom-Zoom" brand promise. However, it is also important to create loyalty to the Mazda brand by ensuring that during the course of owning a Mazda, the customer's driving and ownership experience exceeds their expectations and they choose Mazda when buying their next car. The keys to this are distinctive design, exceptional functionality and responsive handling and driving performance all at a reasonable price. We will continue to deliver products that realize these attributes.

The sales experience is also an important element, as this is when we meet our customers face to face. In order to enhance the Mazda brand, we must provide a brand experience at dealers that fully delivers the "Zoom-Zoom" brand promise at our dealerships.

Experiencing the "Zoom-Zoom" brand through our "Brand @ Retail" strategy

We consider the most important factor in delivering the Mazda brand to customers is having the customer actually experience the brand in the showroom—our point of contact with customers—and through the ownership experience. This is where we pursue our "Brand @ Retail" strategy with our respective sales organizations. Our dealer partners are committed to delivering "Zoom-Zoom" throughout the sales and ownership experience. Going forward, we will endeavor to ensure that "Zoom-Zoom" is the "Mazda Way."

The further, uncompromising pursuit of "Zoom-Zoom."

All New Mazda6 Program Manager
Ryuichi Umeshita

Q1. What does the "Zoom-Zoom Evolution" development concept for the new Mazda6 mean and how does it appeal to customers?

Six years have passed since the popular first-generation Mazda6 introduced "Zoom-Zoom" to the world and with it Mazda's new direction. During that time, trends and the environment surrounding the automobile industry have changed, and based on those changes, the second-generation Mazda6 not only continues the success of its predecessor, it also represents the development of a new-generation Mazda6 that strives to make even further advances. That feeling is what we mean by "Zoom-Zoom Evolution."

The new Mazda6 has three main features. The first is its attractive design, the second is its top-level driving performance and the third is its enhanced environmental and safety features, which convey the important "Sustainable Zoom-Zoom" message and also aim to be best in class. We sought to achieve these features by developing a sporty sedan that even passing drivers would want to drive. We also aimed to create a stylish Mazda sedan by boldly disregarding the traditional image and design compromises of a sedan.

New Mazda6

In January 2008, Mazda released a fully remodeled Mazda6, a model that has been very popular around the world. The new Mazda6 is being positioned as Mazda's global flagship model to drive its growth strategy, and it also holds the key to enhancing brand value. Developed under the theme of "Zoom-Zoom Evolution," the new Mazda6 offers dramatic improvements on the original model—which symbolized Mazda's revival—in terms of road handling, environmental and safety functions, and design. Seeking higher levels of owner loyalty, the car emphasizes both high-speed road handling and comfort, incorporates the latest safety technologies, and has been receiving high marks since its launch.

In terms of design, we emphasized a simple exterior that vibrantly projected a "Japanese sense of beauty." The shape of the headlights, with its long slits, is one example of this.

The major advances in terms of performance were quietness and also stability at high speeds. The reconciliation of quietness with Mazda's typical "driving feel" proved a very difficult challenge, but this was achieved with the Mazda6's low acoustic sensitivity body*. We also sought flexibility in the chassis, and I believe that we have achieved a representative Japanese car that will have global appeal.

Q2. What environmental and safety technologies does the new Mazda6 feature?

There are a number of detailed improvements, including optimal tuning of the engine control computer, a shift from hydraulic to electric power steering to reduce electrical consumption and LED brake lights. We also aimed for globally appealing top-level aerodynamics. In terms of Mazda's traditional strength in lightweight construction, the interior and trunk space were enlarged so that the body size is subsequently larger than the previous model, and while this normally would have added 100 kilograms, we held the weight to that of the previous model. As a result, we were able to increase the engine size by 200cc and still improve fuel consumption by 2%. Taking the high price of gasoline into consideration, we also changed the specification to regular gasoline.

In terms of safety technology, we installed the Mazda Radar Cruise Control (MRCC)—the first front-and-rear radar system in a domestically produced car—and the Rear Vehicle Monitoring System, making the Mazda6 one of the safest Japanese cars when traveling at medium and high speeds. Another special feature is CF Net. This puts the controls for the audio system, air-conditioning and trip computer on the steering wheel so that they can be operated without taking the hands off the wheel and with minimal change in line of sight, making for simple and safe operations. This is a revolutionary feature in terms of safety that makes it possible to avoid dangerous operations when travelling at high speeds.

Q3. As head of the development team, what were your main considerations during development?

The development period for the new Mazda6—from design finalization to mass production—was approximately 18 months. As the program manager during that period, I strove to get out of the office and build understanding at the worksite, as well as to foster motivation. For meetings, as far as possible, we went to the locations, such as design and testing sites, and worked face to face—cars after all are built by people. More than 200 people were involved in this project, including engineers, testers and technicians from the manufacturing division. In order to motivate all these people and instill the desire to create the world's next No. 1 car, it was essential for us to convey our ideas in person so that everyone shared a common perspective. As Mazda's flagship model, the entire company and sales network had high expectations and gave their full support to this car. In addition, people from the manufacturing division at the Hofu plant participated from the design stage and supported us by providing stamping simulations for parts that underpinned the design. Engineers stayed at the plant during significant events like the shift from prototype to mass production to ensure that any problems were quickly resolved. We really received support across all divisions, through the cooperation expressed by the "One Mazda" concept.

Q4. How is the Mazda6 selling and what is the market reaction?

We began selling the new Mazda6 in Europe in October 2007. To date we have had many requests from the sales side to increase production, and the Hofu plant is running at full capacity. Domestic sales began in January and have remained strong since then.

I hope that the new Mazda6 will lead Mazda in the future, both in terms of increasing the value of the Mazda brand and in raising earnings.

* Low acoustic sensitivity body: Noise and vibrations from the road are reduced by increasing the rigidity of the body, creating an even quieter driving experience.

Major Products Lineup

The "Zoom-Zoom" Brand Message

The "Zoom-Zoom" Mazda brand expresses our wish, through our creativity and innovation, to help people experience the sheer enjoyment of motion they first knew in childhood through Mazda cars that are packed with innovation and excitement.

MAZDA6 (Japanese name: Mazda Atenza)

As the evolution of "Zoom-Zoom," the Mazda6 achieves top-in-class aerodynamics, with the aim of being the best touring car for long distances at high speeds. The high degree of harmony among all technologies gives the Mazda6 both greater stability at high speeds and quiet comfort, providing a quality driving experience with the feeling of an intelligent, living automobile.

MAZDA2 (Japanese name: Mazda Demio) 2008 World Car of the Year, 2008 RJC Car of the Year

Full-bodied but with lean styling, with nimble performance that you will enjoy from the instant you take the wheel. In addition to a body that is 100 kilograms lighter than the previous model, the combination of a Miller-cycle engine and CVT*1 makes the new Mazda2 a personal smart commuter, with 23km/l*2 gas mileage.

*1 Continuously Variable Transmission

*2 MLIT figure, 13C-V, 10-15mode fuel economy

MAZDA BIANTE

An eight-person minivan based on the concept of "Look, then experience the Zoom-Zoom Tall minivan as it expands your dreams." With the largest cabin space in its class, the Mazda Biante provides a clean, comfortable interior environment, along with lively, unique styling and Mazda's superior handling and power.

MAZDA MPV

In addition to fuel economy, the Mazda MPV's 2.3-liter DISI* turbo engine delivers powerful acceleration plus strong environmental performance. The large and lavishly appointed cabin, wrapped in sporty styling, creates a sense of openness. Effortless driving performance and a comfortable interior make driving the Mazda MPV a time of luxury.

* Direct Injection Spark Ignition

MAZDA5 (Japanese name: Mazda Premacy)

A DISI engine and electronically controlled 5-speed automatic transmission provide both fuel economy and environmental performance, with an exhilarating driving feel. The Mazda5's 6+One layout is a new interior concept that can accommodate six or seven people, and sliding doors on both sides provide further convenience. The new Mazda5 adds another dimension of excitement to family ties.

MAZDA3 (Japanese name: Mazda Axela)

Sporty handling makes you feel at one with this car, while the bold, refined styling brims with vibrancy. The Mazda3 was created to be a compact sports car that exceeds expectations. Receiving an array of awards in countries around the world for its sportiness and high quality, the Mazda3 continues to exceed the world's expectations.

MAZDA VERISA

The Mazda Verisa offers a refined, stylish exterior design, with an interior that incorporates attention to detail and high-quality design, for quietness normally associated with a higher grade of automobile. Based on the concept of "simple, quality, modern," the Mazda Verisa projects an air of confidence in a compact car that pays attention to beauty and detail.

MAZDA CX-9 2008 Sport/Utility of the Year, 2008 North American Truck of the Year

Showcasing Mazda's unique design skills and featuring superbly dynamic performance, the Mazda CX-9 leaves nothing to chance. Embodying the spirit of a sports car, the Mazda CX-9 is a "Zoom-Zoom" seven-passenger crossover SUV that combines practicality with sporty driving.

MAZDA CX-7

The crossover sports Mazda CX-7 incorporates all of Mazda's sports car DNA in a vehicle that transcends the definition of a sports car. With both urban, refined styling and the powerful handling of a 2.3-liter DISI turbo engine, the Mazda CX-7 has been acclaimed the world over for its sporty handling.

MAZDA MX-5 (Japanese name: Mazda Roadster)

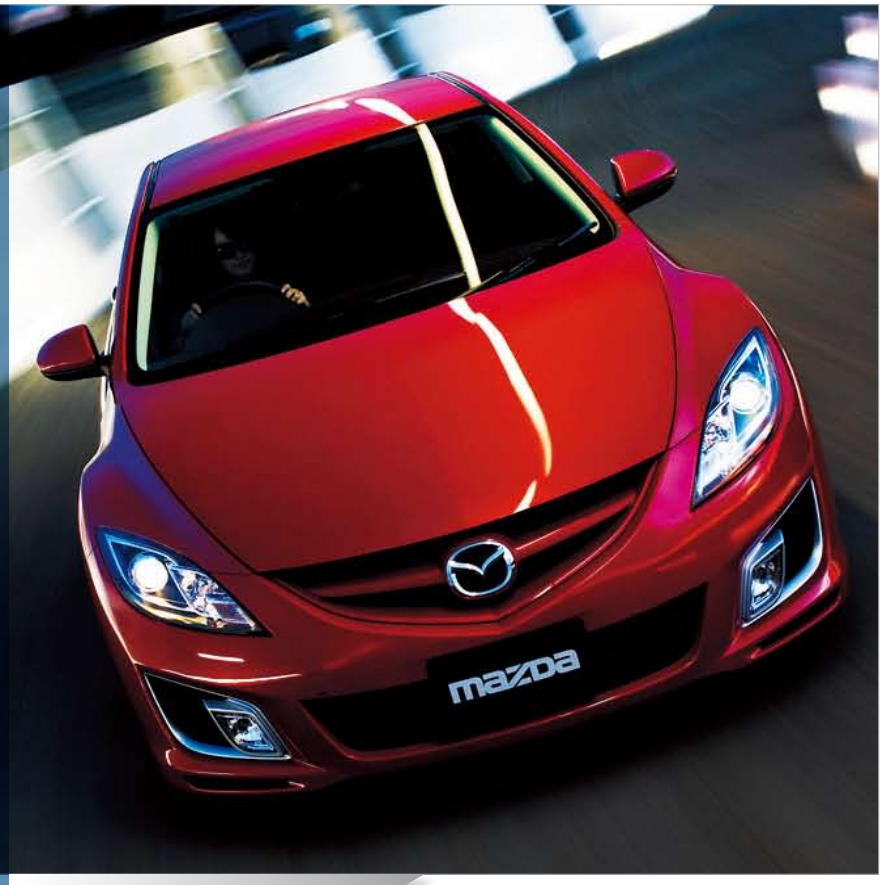
The Mazda MX-5 continues to reach new heights in the *Guinness Book of World Records* as the world's best-selling two-seat, lightweight sports convertible. The Mazda MX-5 is constantly being improved, while maintaining the concepts of *jinba ittai*, or "rider and horse as one," and "lots of fun" that we have wholeheartedly pursued since the car's debut.

MAZDA RX-8

The Mazda RX-8 combines the styling and enjoyment of driving that are fundamental to a sports car with a high level of comfort, made possible with Mazda's proprietary rotary engine technology. The driving excitement starts the instant you take off, and builds as you maneuver the car. The Mazda RX-8 has a four-door, four-seat configuration on a sports car base. It evolved without compromise to be loved by sports car enthusiasts around the world.

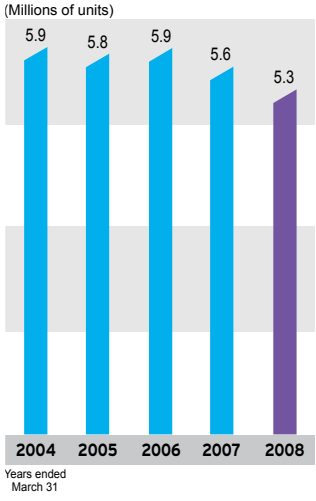
JAPAN

Despite weak demand in Japan, strong sales for the new Mazda2 and Mazda6 models resulted in sales of 256,000 units, a decline of 2%, for a domestic market share of 4.8%.



Mazda6

Automobile demand



Source: Japan Automobile Manufacturers Association

March 2008 Fiscal Year Results

The Japanese market experienced a decline in consumer confidence on concerns of an economic slowdown coupled with significantly higher prices for raw materials and primary commodities. As a result of an extension of the replacement purchase cycle and a rise in fuel prices, total domestic automobile demand declined 5%, to 5.32 million units.

Despite this difficult operating environment with weak aggregate demand, the decline in Mazda's sales volume was held to 2%, with sales of 256,000 units, raising our domestic market share by 0.2 percentage points, to 4.8%.

This domestic result can be viewed as the result of our product-led growth strategy and reinforced sales strength. In terms of products, the new Mazda2, introduced in July 2007, was named Japan's "2008 Car of the Year" by the Automotive Researchers' and Journalists' Conference of Japan (RJC). The new Mazda2 also made significant contributions in terms of both increasing brand value and unit sales, reaching No. 7 in the ranking of domestic unit sales of new models for the March 2008 fiscal year (with a 20% increase over the previous year).

A new Mazda6 was also launched in January 2008, and by the end of May aggregate sales had reached 8,786 units. This monthly sales pace of 1,752 units was higher than targeted. We also expect these two new models to make a major contribution to results in the future.

On the sales side, we have begun operating under the Mazda Advancement Plan, and this has involved strengthening the brand at dealership facilities and opening new dealerships, primarily in key areas in Japan. Our aim with regard to dealership facilities is to "create dealerships that provide a 'Zoom-Zoom' experience." This has primarily involved renovating showrooms, and approximately 60 dealerships were renovated during the March 2008 fiscal year. In addition, approximately 270 dealerships—30% of the nationwide total—have been renovated during the past three years. Nine new dealerships were opened nationwide during the year, with three of them located in greater Tokyo.

Mazda is also placing strategic emphasis on the use of auto financing to strengthen its domestic sales structure. The Mazda Advantage Loan deferred credit plan* was introduced in July 2007 in cooperation with PRIMUS Financial Services, Inc. (PRIMUS), offering customers "a new way of buying a car." Mazda also acquired a 40% stake in PRIMUS in March 2008 as a means of further strengthening its auto financing business. Going forward, we will offer more attractive financing plans while at the same time working to increase brand value.

These activities enabled Mazda to increase Mazda brand value and achieve a larger market share, even in a weak domestic market.

March 2009 Fiscal Year Forecast and Marketing Strategy

With global oil prices remaining high, people are holding on to their cars for longer periods of time and younger people driving less, the outlook for the domestic market is increasingly uncertain. Against this difficult backdrop, we expect to maintain our March 2008 fiscal year sales level in the March 2009 fiscal year, with a 1,000 unit increase, to 257,000 units. In addition to strong sales of the Mazda2 and the full-year contribution of the new Mazda6, we are also looking for a boost from the new Mazda Biante minivan that was released in July 2008.

The new Mazda Biante marks Mazda's entry into the tall minivan segment, one of the few segments showing growth in the domestic market. Mazda has already entered the minivan segment with the Mazda MPV and Mazda5, and the addition of the Mazda Biante is intended primarily to attract buyers in the family segment. We expect the new Mazda Biante to follow the Mazda2 and Mazda6 in solidifying Mazda's product-led growth.

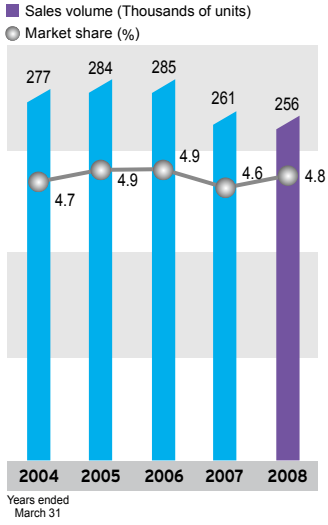
In this way, we are embodying in our product lineup the Mazda brand DNA so that "when you see a Mazda, you want to drive it, and when you drive it you will enjoy the experience and want to drive it again." Centered on our product lineup, we are devoting our energies to further increasing brand value.

We are also strengthening sales activities based on our relationships with customers and dealerships, which are important points of contact. By advancing operations that always emphasize the viewpoint of the customer, we are increasing brand loyalty and adding to the already large number of Mazda fans.

In these ways, by steadily implementing policies for both products and sales, we will sustain growth in the domestic market despite the increasingly challenging conditions.

* Deferred credit plan: a method of payment whereby a predetermined amount of the vehicle price is deferred until the final credit repayment, enabling the monthly payment amount to be reduced.

Sales volume



Mazda2

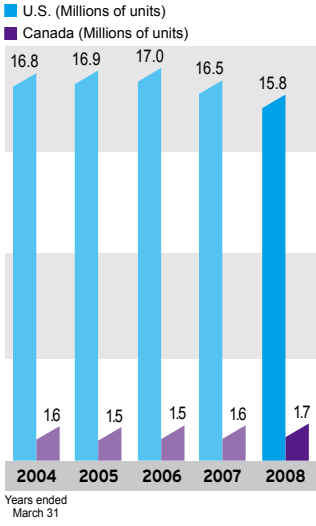
Mazda Biante

NORTH AMERICA

The CX-7 and CX-9 models each made a significant contribution to the March 2008 fiscal year sales, and the Mazda3 also performed strongly. As a result, sales increased 6.8% year on year, to 406,000 units.

Mazda CX-7

Automobile demand



March 2008 Fiscal Year Results

The March 2008 fiscal year was an increasingly difficult year for the North American automotive industry, with a spreading, deep-rooted decline in consumer confidence set against a backdrop of fears of an economic recession coupled with higher oil prices. Despite this operating environment, Mazda's retail sales were solid in the U.S., Canada and Mexico, growing 6.8%, to 406,000 units. In the U.S., overall industry demand declined 4%, to 15.84 million units, with nearly all automakers struggling. However, despite these difficulties Mazda achieved an increase in sales of 5%, to 295,000 units. The market decline is becoming gradually more pronounced and the weakness of the light truck segment is particularly noticeable, but Mazda enjoyed a large contribution from the Mazda CX-7 and CX-9 models in the crossover segment, which continued to grow in the fiscal year. Furthermore, despite declining demand in the passenger car segment, sales of the Mazda3 remained strong as high fuel prices encouraged a shift toward smaller, more fuel-efficient cars. The Mazda CX-9 demonstrated the strength of the Mazda brand, winning two of North America's most prestigious awards—the "2008 North American Truck of the Year" as well as *Motor Trend* magazine's "2008 Sport/Utility of the Year." The Canadian market grew by 3.7%, to 1.68 million units, and Mazda achieved another year of record sales with 6% growth, to 89,000 units.

Strong growth was achieved in Mexico as well, with an 84% increase in sales, to 18,000 units.

The March 2008 fiscal year results in the North American market reaped the benefits of strategies and initiatives in place since 2002. In terms of products, the development of vehicles tailored to the needs of North American customers ensured the Mazda CX-7 and Mazda CX-9 met the needs of the demanding crossover segment customers.

The sales network was also strengthened by increasing the number of exclusive dealerships that sell only the Mazda brand. As a percentage of all dealers handling the Mazda brand, the percentage of exclusive dealerships has risen to 52% from 17% in 2002. Going forward, Mazda intends to continue to strengthen our partnerships with our dealers as a means of increasing sales and strengthening our brand.

As a result of these efforts, Mazda was not only able to record growth in sales despite an adverse market environment, but also achieved one of the industry's highest growth rates.

March 2009 Fiscal Year Forecast and Marketing Strategy

Anticipating increased competition and continued industry decline, we are forecasting a 1.4% decline in March 2009 fiscal year North American sales, to 400,000 units. In the U.S., reflecting weak demand, we expect a 1.6% decline, to 290,000 units, and in Canada we are forecasting a 4.0% decline, to 85,000 units. We plan to launch a new Mazda6 designed and engineered specifically for North America in the summer of 2008. This model was designed for the U.S. market and has a body size and engine displacement tailored to the North American market. Optimized for North America, the Mazda6 achieves high marks in both driving dynamics and comfort, and it is expected to contribute to growth from the second half of the year.

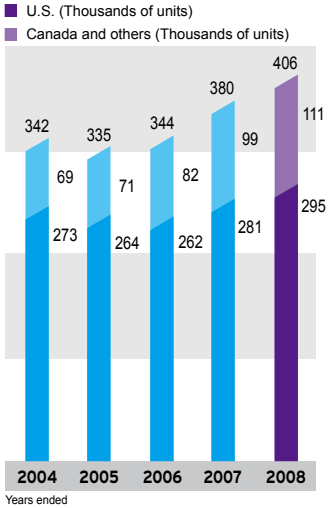
In order to further expand Mazda's North American business, we intend to put even greater emphasis on customer retention by raising the level of owner loyalty. We aim to create a positive ownership experience unmatched by other brands so that customers will select Mazda when buying their next car.

We are also addressing Generation-Y*. This is a huge demographic market with a population of approximately 72 million people, and if we can fully convey the attractiveness of the Mazda brand to this generation, the chances of them purchasing a Mazda again in the future are increased, ensuring growth.

In these ways, Mazda is engaged in a variety of efforts, including the introduction of attractive products, in order to maintain continuous growth and increase brand value in the North American market.

* Generation-Y: a general term for people born since the second half of the 1970s.

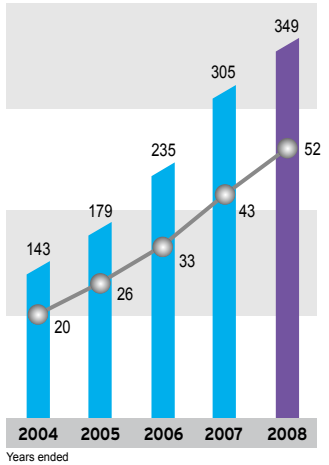
Sales volume (North America)



Years ended March 31

* Includes sales for Puerto Rico in Canada and others from the March 2007 fiscal year

Exclusive dealerships (U.S.)



Years ended March 31

Mazda CX-9

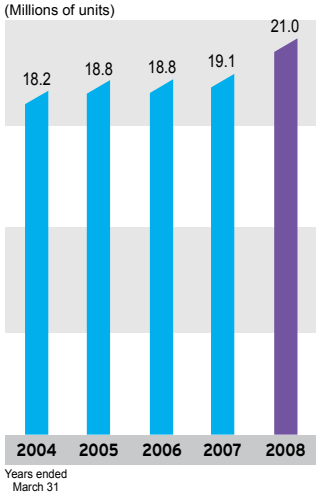
Mazda6 for North America

EUROPE

Due to positive contributions to sales made by the Mazda CX-7 and the successful launches of the Mazda2 and the Mazda6, sales increased 7.4%, to a record high 327,000 units.

Mazda2

Automobile demand



* Includes Russia

March 2008 Fiscal Year Results

Overall demand in the Western European market saw limited growth (0.4%) due to declining consumer confidence triggered by the subprime credit crisis and high prices for fuel. In particular, Germany, a major market for sales at Mazda, experienced a 5% decline. On the other hand, Russia's industry grew 35% due to the country's economic expansion.

Against this backdrop, Mazda's European retail sales in the March 2008 fiscal year grew 7.4%, to a record 327,000 units. The introduction of the Mazda CX-7 and new models of the Mazda2 and Mazda6 contributed to this growth. The new Mazda2 continues to exceed sales targets. In addition, the new Mazda2 competes in Europe's largest market segment, the B segment, and with a high level of interest in CO_2 emission reduction, resulting in higher demand for fuel-efficient vehicles, the Mazda2 has been well received. The new Mazda6 has also received positive reviews and is off to a solid start.

The United Kingdom, Russia and Portugal all posted record sales and sales in other major markets including France and Austria rose as well. Russia is particularly noteworthy: with record sales every month, the March 2008 fiscal year saw 63% sales growth, to 58,000 units. This sales growth has been underpinned by a strong sales network and a unified brand strategy.

With a unified brand message continuously transmitted throughout Europe, we have succeeded in further raising the level of recognition of the Mazda brand. "Zoom-Zoom" is currently one of the most widely recognized brand messages in Europe.

We are continuing with our distribution strategy as we establish directly operated national sales companies. A company covering Belgium and Luxemburg was set up in April 2007, while companies for Poland and Turkey were established in May and June 2008. We have been aggressively opening national sales companies in Europe over the past five years. We currently operate in 39 European countries through 21 directly operated national sales companies, and over 90% of sales in Europe are through these companies. These directly operated sales companies also make it possible to fully convey Mazda's brand value directly to customers by providing "Zoom-Zoom" products and services that exceed customer expectations. In addition, the Mazda is active in a further 14 countries in the region through independent distributors.

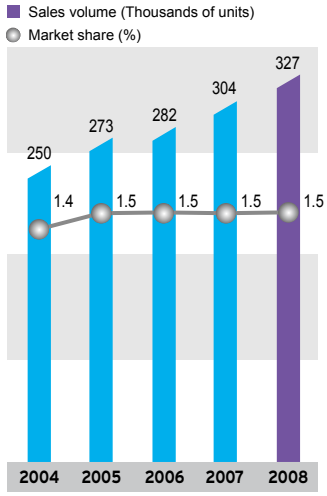
March 2009 Fiscal Year Forecast and Marketing Strategy

Going forward, we are looking for solid sales growth to continue in Europe. We are forecasting another record year for sales in the March 2009 fiscal year, with 10% growth, to 360,000 units. In addition to a continued contribution to sales growth from the new models of Mazda2 and Mazda6, we are aiming for even higher growth, with the introduction of a 3-door hatchback version and diesel models of the Mazda2. Given Europe's high level of interest in CO_2 reduction, we are also strengthening our powertrain lineup.

Russia will eclipse Germany as the European country with the highest sales.

We also intend to continue to establish new national sales companies during the year.

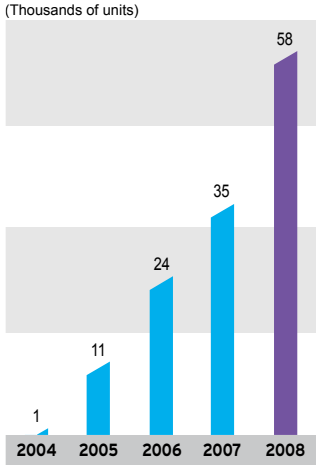
Sales volume (Europe)



Years ended March 31

* Includes sales for Turkey from the March 2007 fiscal year

Sales volume (Russia)



Years ended March 31

Mazda6

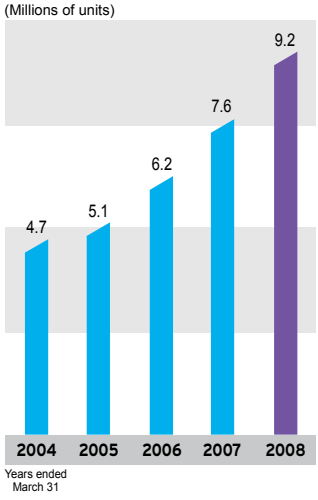
Mazda2 3-door hatchback

CHINA

In the March 2008 fiscal year, sales declined 21.8% year over year, to 101,000 units. This decline was attributable to the discontinuation of the Mazda 323 (Familia) and the previous Premacy model. Excluding these two discontinued models, however, sales increased by a substantial 90.5%.

Mazda3

Automobile demand



March 2008 Fiscal Year Results

The overall Chinese market grew 22%, to 9.25 million units, driven by strong economic growth. The passenger car market, in which Mazda participates, also achieved significant growth of 24%, to 5.6 million units.

In the March 2008 fiscal year, Mazda's retail sales in China fell 21.8%, to 101,000 units, because of the discontinuation of production of the Mazda 323 (Familia) and the previous Premacy model in Hainan. Excluding these two discontinued models, however, sales increased by 90.5%. In addition to continued strong sales of the Mazda6 and Mazda3, this fiscal year benefited from the commencement of production of the new Mazda2 at the Nanjing plant and the introduction of the Mazda5 in December.

We have also aggressively invested in production centers in anticipation of high growth going forward, in order to lay the foundation to be able to meet the anticipated growth in demand. Changan Ford Mazda Engine Co., Ltd., a joint venture in Nanjing among Ford Motor Company, Changan Automotive Group and Mazda, began mass production of engines in April 2007, and in October the Nanjing manufacturing plant, a joint venture among the same three companies, commenced mass production of the Mazda2. The Nanjing plant is an integrated facility with lines for stamping, body assembly, painting and final assembly, and has

an annual production capacity of 160,000 units. This plant is also highly efficient, incorporating Mazda's latest manufacturing and production technologies to address environmental considerations and create a favorable work environment for employees as well.

Mazda has two sales channels in China—FAW Mazda Motor Sales Co., Ltd., and the Changan Mazda sales network. The expansion of the dealer network is progressing, and as of the end of the March 2008 fiscal year there were 175 dealerships operating.

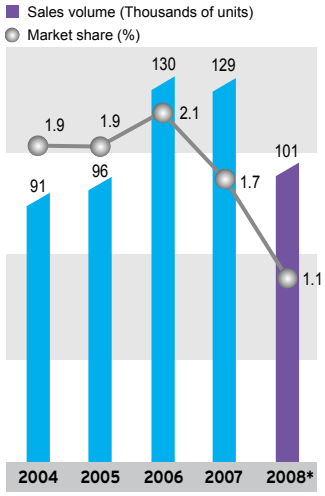
Through these initiatives, Mazda has established a full product lineup and manufacturing and sales bases in the Chinese market, with a view toward achieving our target of selling 300,000 units annually by March, 2011.

March 2009 Fiscal Year Forecast and Marketing Strategy

China's growth has been accelerating in recent years, with continued growth anticipated going forward despite recent monetary tightening and fuel price increases. We are forecasting a roughly 80% increase in sales of Mazda vehicles in the March 2009 fiscal year, to 180,000 units. We plan to enhance our lineup with the introduction of a sedan in addition to the new Mazda2 5-door hatchback, and with the Mazda3 and the Mazda6, we see this lineup with major products in all three segments contributing to growth going forward. We also plan to introduce the new Mazda6, the Mazda RX-8 and the Mazda MX-5 during the March 2009 fiscal year, and to raise the level of awareness of the "Zoom-Zoom" message as we work to further enhance Mazda's brand awareness.

Our goal for the China market going forward is to operate efficient production facilities, raise the level of brand awareness, strengthen contact points with customers through the sales network and thereby raise sales and customer satisfaction.

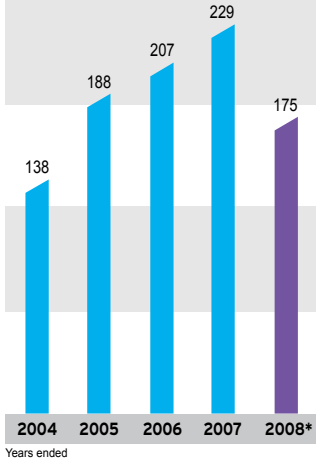
Sales volume



Years ended March 31

* Excludes units produced at the Hainan plant

Number of dealerships



Years ended March 31

* Excludes number of Hainan dealerships

Mazda5

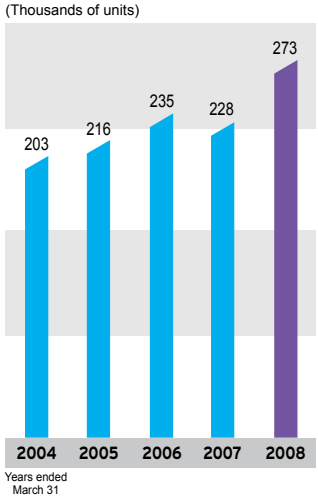
Mazda2

OTHER MARKETS

Strong sales of the new Mazda2 and Mazda CX-7 were the driving force behind a year-on-year 20.4% increase in sales, to 273,000 units. Record high unit sales were recorded in each region.

Mazda BT-50

Sales volume (Other markets)



* Includes sales for Puerto Rico and Turkey until the March 2006 fiscal year

March 2008 Fiscal Year Results

With contributions from the introduction of the new Mazda2 and solid sales of the Mazda CX-7 and Mazda3, March 2008 fiscal year sales in other markets rose 20.4%, to 273,000 units.

By region, Australia had record sales, with 18% growth, to 79,000 units, bringing Mazda's market share to 7.5%. Against a backdrop of solid overall demand, the Mazda CX-7, the Mazda BT-50 and the new Mazda2 all posted strong sales. The partnership between the dealer sales network and Mazda Australia Pty., Ltd., was a key reason in raising our brand's market profile. Another factor behind Australia's success is its extensive CRM (customer relationship management) program, which is an industry benchmark.

Israel also posted record sales, with a 58% increase, to 35,000 units. In Israel, we work very closely with the market, and based on this spirit of partnership and an effective brand strategy, Mazda has remained the No. 1 brand in Israel for 12 consecutive years, with a market share of 16.5%.

The main factor behind Mazda's success in these two markets is the basic strategy of "Brand @ Retail," which means providing customers with an outstanding sales and service ownership experience. This entails building a framework for close cooperation between Mazda, the markets and our dealers. Going forward, we aim to expand sales in the region based on this fundamental strategy.

Record sales were also achieved in New Zealand, Venezuela, Ecuador, Chile and Saudi Arabia in the March 2008 fiscal year.

Mazda South Africa attained 18,000 sales in this fiscal year, an increase of 26% from the previous year's result. This solid performance was achieved through solid sales of the new Mazda2 and Mazda5, and steady progress in developing the dealer network. In addition, Mazda2 was named the "South Africa 2008 Car of the Year," further enhancing the Mazda brand.

In Thailand, higher fuel prices and intensified competition are creating an increasingly difficult sales environment, especially for pickup trucks, the main product. Mazda's sales were down by 17%, to 14,000 vehicles.

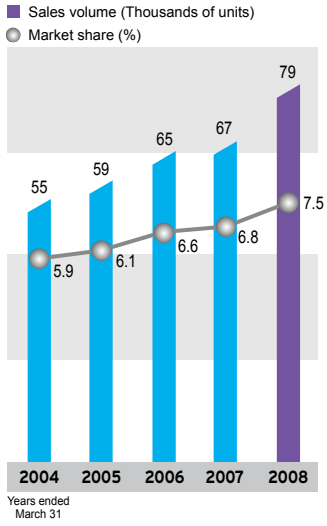
March 2009 Fiscal Year Forecast and Marketing Strategy

We are forecasting 3% sales growth, to 283,000 units in other markets in the March 2009 fiscal year. Continued sales growth is anticipated in Australia and Israel, but a decline is expected in Venezuela because of import restrictions imposed by the government. We are aiming for sales growth in Australia based on the full-year contribution of the new Mazda6, and in Thailand based on increased sales of the Mazda BT-50 pickup truck, and a boost to sales of the Mazda3 from tax reductions for ethanol gasoline (E20) compatible vehicles. We also expect sales of the popular Mazda BT-50 to remain strong in emerging markets.

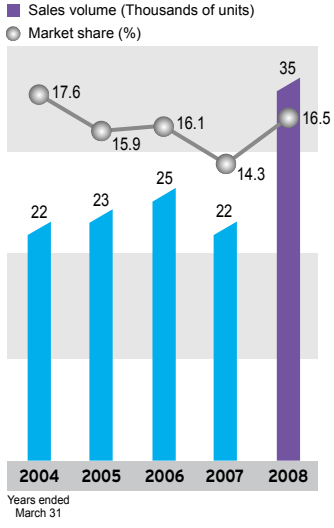
We plan to continue to expand our business network in Southeast Asia, utilizing Mazda Southeast Asia Co., Ltd. (MSEA), as our local foothold to promote business growth. PT Mazda Motor Indonesia (PTMMI) is being further strengthened with the opening of 10 showrooms in Jakarta and other major cities. The network in Thailand is also being enhanced with new showrooms opening in Bangkok and other major cities. In Malaysia, we are working with our new local partner, with which we entered into an agreement from the March 2009 fiscal year, to strengthen our sales network to further grow the Mazda brand.

With regard to India and Brazil, we will continue to monitor the market and take appropriate action when the time comes.

Sales volume (Australia)



Sales volume (Israel)



Mazda2

Mazda CX-7

"Sustainable Zoom-Zoom"—Long-Term Vision for Technology Development

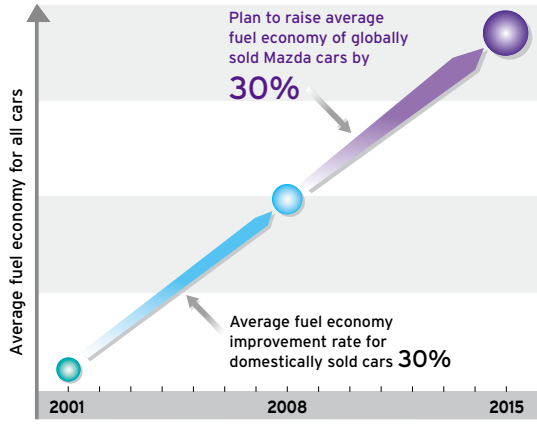
Mazda is constantly working to build automobiles that create a sense of "excitement" so that our vehicles "look inviting to drive, are fun to drive, and make you want to drive them again." Accordingly, we are also striving toward the realization of a sustainable future that creates a sense of excitement for everyone—in cars, people and the whole earth.

Raising the fuel economy of Mazda vehicles by 30% by 2015

As global automobile ownership continues to grow, all automakers need to step up their efforts to improve air quality by producing cleaner emissions, reducing CO_2 emissions by raising fuel economy and reducing dependence on increasingly scarce fossil fuels.

Under our fundamental policy of providing an enjoyable driving experience and superior environmental safety to all customers who purchase our cars, Mazda announced a set of initiatives in June 2008 for the reduction of CO_2 emissions. The plan is to raise the average fuel economy of all Mazda vehicles sold globally by at least 30% by 2015, primarily through powertrain renovations and the introduction of new platforms.

Raising average fuel economy



Product Initiatives

- Raised average fuel economy of Mazda cars sold in Japan by approximately 30% over the seven years from 2001 through 2008.
- Have at least 90% of Mazda cars sold in Japan in 2008 certified as SU-LEV vehicles, the highest fuel economy rating (with emissions 75% lower than the 2005 emission standards).
- Raise average fuel economy of all Mazda vehicles sold globally by at least 30% from 2008 levels by 2015 through powertrain renewals and the introduction of new platforms.

1. Powertrains

	Main Initiatives	Target
Gasoline engines	**Smart Idle Stop System**	
	Introduce Mazda's proprietary Smart Idle Stop System in 2009	Improve fuel economy by 7-8% (Japanese market)
	Flex-fuel engine	
	Introduce flex-fuel engines compatible with E85 in Northern Europe and North America in 2009	E85 compatibility
	New gasoline engine (direct injection)	Increase power by 15-20%
	Renew engines from 2011 for large improvements in power and fuel economy	Increase fuel economy by 20%
Diesel engines	**New diesel engine**	Produce cleaner exhaust gases
	Globally roll out new diesel engines from 2011	Increase fuel economy by 20%
Transmissions	**New automatic transmission (AT)**	
	Introduce new, high-performance AT in 2011 that has same driving feel and fuel economy as manual transmission (MT)	Achieve MT-level driving feel and fuel economy
Rotary engines	**New rotary engine**	
	Introduce new gasoline rotary engine 16x with significantly improved power and fuel economy in early 2010s	Dramatic improvements in power and fuel economy
	Hydrogen rotary engine	Increase power by 40% (Premacy)
	Successively deliver 30 Mazda RX-8 Hydrogen RE vehicles to Norway's HyNor project from 2008	Range of 200km (Premacy)
	Commence lease sales of Premacy Hydrogen RE Hybrid with improved power and range in March 2009 fiscal year	Power equivalent to 3.0 liter gasoline piston engine
	Plan for practical implementation of new hydrogen RE vehicle based on 16x with range increased to 400km	Range of 400km (New Hydrogen RE)
Hybrids	**Gasoline hybrid vehicles**	
	Introduce highly efficient gasoline hybrid vehicles using Ford technologies and Mazda's own systems in early 2010s	Increase fuel economy by 100%

2. Vehicles

	Main Initiatives	Target
Platforms	**New platforms** Roll out vehicles using new platforms in stages from 2011	Reduce platform weight by 100kg
Materials technology	**Bumper to bumper** Introduce bumper-to-bumper recycling technology starting with Mazda RX-8s produced in March 2005 and steadily expand to other models incorporating this technology	
	Bioplastic Develop carbon-neutral bioplastics from plant sources via industry-academia-government cooperation and use in Mazda Premacy Hydrogen RE Hybrid scheduled for lease sales from the March 2009 fiscal year Develop bioplastic technology from nonfood cellulose biomass sources by 2013 and plan to introduce it for actual use	

Manufacturing and Distribution Initiatives

- Mazda has always aimed to have clean factories that are both people-friendly and environment-friendly, and has worked to develop technologies that significantly reduce VOC* and CO_2 emissions, waste matter, and energy used in manufacturing.
- As a company that contributes to society, Mazda also promotes the construction of transport systems that take environmental considerations into account in the area of distribution.

1. Plants

	Main Initiatives	Target
Plants	**Three-Layer Wet Paint system** Following introduction of Three-Layer Wet Paint system at Changan Ford Mazda plant in Nanjing, China, introduce at the AutoAlliance Thailand plant in 2008	
	Proprietary water-based paint technology Develop and introduce innovative water-based paint technologies in 2009 that further reduce VOC emissions by 57% with no increase in CO_2 emissions	Reduce VOC emissions by 57%

2. Distribution

	Main Initiatives	Target
Distribution	**Green distribution system** Shift flow of parts to/from several vendors/subcontractors to Mazda's milk-run system and promote modal shift from truck transport to rail transport	

* VOC: Volatile Organic Compounds

Reference Information

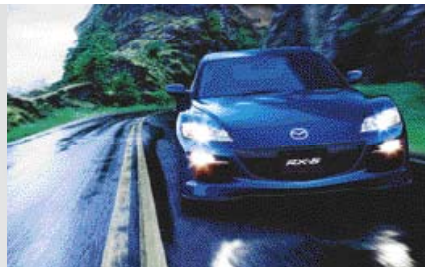
Emission Standards in Major Markets

				2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United States	Both gasoline and diesel	Passenger vehicles		Introduce in stages		Tier II (from 2007 Model Year, complete implementation for passenger and small commercial-use vehicles)								
		Bin5	CO	2.6g/km (4.2g/mile)										
			NMOG	0.056g/km (0.018g/mile)										
			NOx (nitrogen oxide)	0.04g/km (0.07g/mile)										
			PM (particulate matter)	0.006g/km (0.01g/mile)										
Japan	Gasoline	Passenger vehicles		New long-term standards				Post-new long-term standards						
		Standards	CO	1.15g/km				1.15g/km						
			NMHC	0.05g/km				0.05g/km						
			NOx (nitrogen oxide)	0.05g/km				0.05g/km						
			PM (particulate matter)*2	–				0.005g/km						
	Diesel	Standards	CO	0.63g/km				0.63g/km						
			NMHC	0.024g/km				0.024g/km						
			NOx (nitrogen oxide)	0.14～0.15g/km				0.08g/km						
			PM (particulate matter)	0.013～0.014g/km				0.005g/km						
Europe	Gasoline	Passenger vehicles		Euro4				Euro5 (From September 2009)					Euro6 (from September 2014)	
		Standards	CO	1.0g/km										
			THC	0.1g/km										
			NMHC	–				0.068g/km						
			NOx (nitrogen oxide)	0.08g/km				0.06g/km						
			PM (particulate matter)	–				0.005g/km						
	Diesel	Standards	CO	0.5g/km										
			THC+NOx	0.3g/km				0.23g/km					0.17g/km	
			NOx (nitrogen oxide)	0.25g/km				0.18g/km					0.08g/km	
			PM (particulate matter)	0.025g/km				0.005g/km						

*1. CO: carbon monoxide, NMOG: nonmethane organic gas, THC: total hydrocarbon, NMHC: nonmethane hydrocarbon
*2. PM regulatory values apply only to lean burn direct fuel injection vehicles fitted with NOx storage catalysts.
Source: Japan Automobile Manufacturers Association, Inc., U.S federal regulations 40CFR Part86, REGULATION (EC) No 715/2007

Environmental Initiatives

"Preserving the earth's environment" has always been an extremely important theme at Mazda. We are convinced that Mazda cars should not only have good gas mileage and clean emissions, but also must be "fun to drive."



Advanced Hydrogen Rotary Engine

Mazda views the use of hydrogen energy as the most promising direction for alternative-fuel vehicles of the future, and has been carrying out R&D for hydrogen energy rotary engines (RE) for more than 10 years. We are developing this as a technology that shows possibilities for internal combustion engines in a hydrogen energy society.

Mazda Premacy Hydrogen RE Hybrid

Mazda Premacy Hydrogen RE Hybrid receives MLIT approval

In June 2008, the Mazda Premacy Hydrogen RE Hybrid, which uses a hybrid system to achieve significantly higher performance in a hydrogen rotary engine vehicle, received permission from Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for testing on public roads. Using a dual fuel system that can run on either hydrogen or gasoline, this is the world's first hydrogen hybrid automobile. We are conducting public road tests, and we will begin lease sales of the vehicle in the March 2009 fiscal year.

Mazda RX-8 Hydrogen RE

Mazda RX-8 Hydrogen RE deliveries to Norway

Mazda signed a memorandum of understanding in November 2007 to cooperate in Norway's state HyNor project, which aims to build a hydrogen energy infrastructure in that country. Under the memorandum of understanding, Mazda intends to successively deliver 30 Mazda RX-8 Hydrogen RE vehicles to HyNor from the summer of 2008. This will be the first deliveries of these vehicles outside Japan.

Clean Exhaust

Mazda is developing clean cars that surpass the various emission standards of countries around the world.

Percentage of SU-LEV-approved vehicles reaches 93.2%

Mazda is developing cars that comply with the MLIT's standards for low-emission vehicles. Of Mazda's passenger vehicles produced for the domestic market in the March 2008 fiscal year, excluding OEM vehicles, 93.2% received SU-LEV (super ultra-low emission vehicle) approval*—one of the highest percentages among domestic automakers.

Mazda is also developing low-emission vehicles that comply with the strict emission standards of countries around the world.

* SU-LEV approval: Under the MLIT's standards for low-emission vehicles, vehicles certified as having reduced toxic substance emissions by at least 75% from 2005 benchmark levels.

Developing new clean diesel engines for 2011

In 2011, Mazda plans to develop new clean diesel engines that are even more advanced than current versions, to comply with "Tier2/Bin5" emission standards in the U.S. and Japan's fiscal 2009 emission standards.

Increasing Fuel Economy

Mazda is introducing minor changes and new vehicles that aggressively incorporate low-fuel-consumption technology. We are also making progress in introducing diesel engines with low fuel consumption in Europe. In addition, with renewed powertrains and the introduction of new platforms, we plan to reduce CO_2 emissions by raising the average fuel economy of all Mazda vehicles sold globally by at least 30% by 2015.

Achieving "Fiscal 2010 Fuel Economy Standards" in all classes

Efforts to reduce CO_2 emissions by improving fuel economy successfully achieved the domestic goal of "achieving fiscal 2010 fuel economy standards in all passenger vehicles during the March 2008 fiscal year" in all weight classes during the March 2008 fiscal year.

New Mazda2 achieves "Fiscal 2010 Fuel Economy Standard +25%" to qualify for the Green Tax system

Mazda has developed the naturally-aspirated MZR 1.3-liter Miller-cycle engine and used it in the new Mazda2, which was launched in Japan in July 2007.

Combining Mazda's first use of a continuously variable transmission (CVT) in a registered vehicle, the engine achieves an improvement of approximately 20% over the fuel economy of the previous Mazda2 and meets the "Fiscal 2010 Fuel Economy Standard +25%." These models have also received SU-LEV certification, making them eligible for tax credits under the Green Tax system*.

* Green Tax system: Tax system under which new vehicles with low-environmental impact are taxed at a reduced rate for the first year after new registration, while new vehicles with large environmental impact are taxed at a higher rate after a certain period of time after new registration.

Development of Smart Idle Stop System

Mazda is moving forward with research on a "Smart Idle Stop System" based on direct fuel injection. An idle-stop system raises fuel economy by automatically shutting down the engine when the vehicle is stationary (e.g. when waiting at a traffic light) and automatically restarting the engine when the driver depresses the accelerator.

Mazda's system is quieter and restarts more quickly than conventional idle-stop systems that use a motor for restarting. This system achieves restart by fuel-injection combustion, utilizing the energy created to depress the pistons. We plan to introduce this proprietary Smart Idle Stop System in the domestic and European markets during 2009.

Smart Idle Stop System

Development of Biotechnology

"Mazda Biotechmaterial" plant-derived resin materials

As part of a joint industry–academia–government project in Hiroshima Prefecture, in the March 2007 fiscal year Mazda successfully developed a carbon-neutral* plant-derived injection-moldable resin material that can be used for automobile interior components. We were also the first in the world to develop a 100% plant-derived, highly durable biofabric that can be used for car seats and door trim. We are planning the use of these biotechmaterials in the Mazda Premacy Hydrogen RE Hybrid.

Furthermore, through another joint industry–academia–government project, in June 2008 we began work on developing non-food-based bioplastic technologies that use plant waste and wood shavings as raw materials and based on nonfood materials.

Biofabric: raw materials and intermediary materials

* Plant-derived resin materials do not affect CO_2 levels in the atmosphere because the amount of CO_2 emitted when they are broken down or burned is the same as the amount of CO_2 absorbed in the growth process. This is referred to as being "carbon neutral."

Enhancing Safety Features

Ensuring the safety of our cars is one of Mazda's fundamental principles, and we are developing various technologies and equipment as we pursue a level of safety features that is even higher than international standards.

Passive Safety Technology

Mazda Advanced Impact-energy Distribution and Absorption System

In 1997, Mazda developed this passive safety feature, which uses a structure that absorbs energy in all directions. By dispersing and absorbing the energy from the impact of a collision throughout the entire body, damage to the cabin is reduced and the safety of passengers is protected. Since then, Mazda has continued to evolve this unique technology has achieved world-class collision safety.

In December 2007, the new model of the Mazda2, which utilizes the Mazda Advanced Impact-energy Distribution and Absorption System body, was awarded the highest possible ranking of five stars from the European New Car Assessment Program (Euro NCAP)* in the adult occupant supermini category.

The new Mazda6, released in January 2008, represents the next evolution in collision safety body construction. Through the increased use of high-tensile steel plates, flexural rigidity has been increased by a maximum of approximately 45%, and torsional rigidity has been increased by a maximum of approximately 30% (certain models used for comparison).

* Euro NCAP: an independent organization created from traffic-related organizations from each EU country, it has been evaluating vehicle safety performance since 1997.

The rear vehicle monitoring system in operation; inset shows the warning light

Active Safety Technology

Rear vehicle monitoring system detects when a vehicle approaches from behind

Mazda's new Mazda6 is Japan's first domestic car to feature a "rear vehicle monitoring system."

When traveling at high speeds, this system uses radar to detect when a vehicle is approaching from the rear on left or right, and alerts the driver via an LED light and alarm when changing lanes would present the danger of a collision. The system uses 24GHz radar, which has a wide detection range and can operate even in bad weather.

CF-Net Human Machine Interface reduces changes in line of vision while driving

The CF-Net Human Machine Interface is a system that allows the driver to operate the audio system, air conditioner and other systems using switches on the steering wheel while looking at an integrated display at the top of the dashboard. This provides both safety and ease of operation, as the driver has less need to move their line of site or take their hands off the wheel. This system is included in the new Mazda6.

DSC system controls slides

The DSC (Dynamic Stability Control) system uses a range of sensors to detect a variety of conditions in the car, and has computer controls that can automatically apply the brake and reduce the engine torque to prevent the car from sliding and to maintain a forward direction. When the tires are not able to fully grip the road surface because of rain or ice, this prevents the car from not going in the intended direction because of sudden understeering or oversteering. The DSC system is able to reduce understeering and oversteering within the limits of the tires' ability.

RSC system applies brakes when imminent rollover detected

The RSC (Roll Stability Control) system is a cutting-edge safety system that was first included in the Mazda CX-9 in 2007.

This system works in coordination with the slide-control DSC and the Traction Control System (TCS), which prevents the tires from spinning when starting out or accelerating, to control the vehicle by appropriately applying the brakes when an imminent rollover is detected. This contributes an added element of safety that takes how the car is being used into account (e.g. when there is a large load on the roof rack).

The Mazda CX-9, which features this system, received four stars—the highest mark for SUVs currently on the market—in dynamic rollover tests conducted by the NHTSA (National Highway Traffic Safety Administration).

Mazda's Precrash Safety System avoids collisions and reduces injuries

The Mazda Precrash Safety System uses milli-wave radar sensors attached to the underside of the bumpers to detect cars traveling in front of the vehicle, oncoming cars and other obstacles. First, an alarm is sounded and a light comes on when the system determines that there is a danger of a collision. If the driver does not apply the brake when this alarm is triggered, light braking is automatically applied as a caution to the driver. If the system determines that the driver's evasive action is not fast enough to avoid a collision, the brake will automatically be applied to reduce speed. At the same time, the seat belts tighten, helping to reduce injuries to passengers from a collision.

This system is used in the Mazda MPV, the Mazda CX-7 and the Mazda6. Furthermore, when the possibility of a collision is detected in the Mazda MPV, the play in the brake is reduced, making the brake function more responsive.

Joint industry–academia–government public road testing of ITS

Mazda participated in a joint industry–academia–government project in the Hiroshima area for approximately one month from January 2008, running vehicles equipped with ITS (Intelligent Transport Systems) equipment and drive recorders, and collecting and analyzing the data.

ITS uses the latest telecommunications technology to create a new traffic system that reduces accidents and traffic jams. Data shows that currently approximately 90% of traffic accidents are caused by the failure to recognize or react properly to danger, indicating a need for measures to support drivers in recognizing dangers in order to avoid accidents. The use of ITS can also reduce the environmental impact of automobiles by alleviating traffic jams and therefore reducing driving times.

The Mazda MPV with ITS equipment installed

Road trials of Mazda ASV-4 advanced road vehicle begin

Mazda has made practical use of a variety of advanced safety technologies, and began public road trials of its advanced safety vehicle (ASV), the Mazda ASV-4, in the Hiroshima area in March 2008. This was based on the Ministry of Land, Infrastructure, Transport and Tourism's Advanced Safety Vehicle Promotion Plan*1, which has been ongoing for more than 15 years with the aim of reducing traffic accidents. This trial involved the joint collection and analysis by the ASV project members*2, as part of the development of a system to support safe driving by preventing head-on collisions, collisions when making right-hand turns and rear-end collisions.

By conducting these trials in the same area as the ITS experiments, Mazda intends to evaluate the compatibility of road-to-vehicle and vehicle-to-vehicle communication systems.

The Mazda ASV-4 advanced safety vehicle

*1. A project launched with the aim of developing, implementing and promoting the use of technologies for advanced safety vehicles.
*2. Three companies participated in the Hiroshima-area public road trials: Mitsubishi Motors Corp., Kawasaki Heavy Industries, Ltd., and Mazda.

Corporate Social Responsibility (CSR) Initiatives

Mazda fulfills its social responsibility as a company that has value for society. Mazda does this by continuously pursuing sound, highly transparent management, enhancing corporate governance, promoting risk management, and through activities in the areas of compliance and corporate ethics, while at the same time carrying out our business activities with a sense of awareness toward all of our stakeholders.

Structure for Promoting CSR Activities

Mazda conducts CSR activities in the six areas of Compliance, Respect for Human Rights, Customer Satisfaction, Environmental Protection, Social Contribution, and Disclosure. It carries out these activities guided by the "One Mazda" principle and while aiming to precisely grasp and respond to the needs and demands of all its stakeholders, particularly its customers.

Mazda established a CSR Committee in December 2004 to advance its CSR initiatives. In April 2008, the committee was reformed to become the CSR Management Strategy Committee, shifting to a structure that enables it to take a global perspective and utilize Mazda's uniqueness when implementing CSR measures. The newly reformed committee aims to promote cooperation between Mazda's main domestic and overseas bases and to develop integrated Mazda Group CSR initiatives that also consider the particular characteristics of each region where a facility is located.

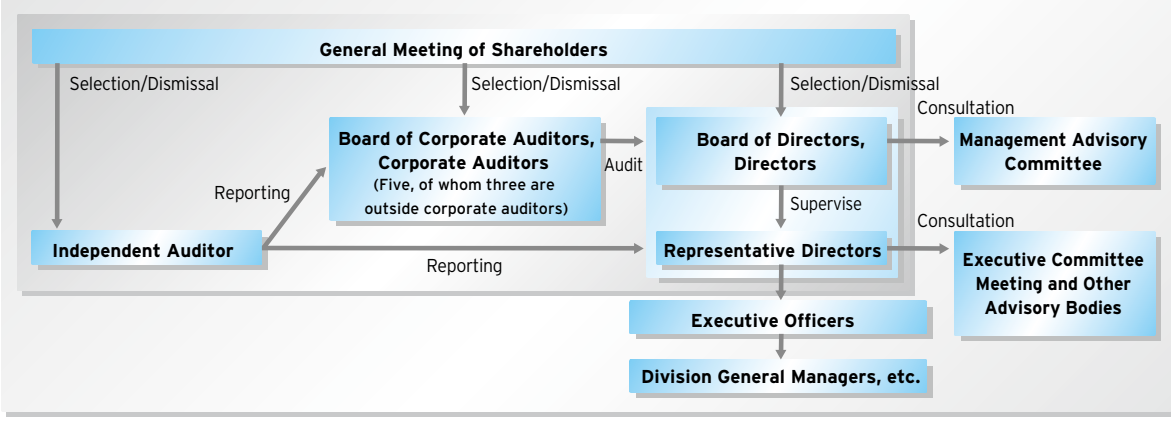
Corporate Governance

Mazda considers robust corporate governance to be one of its most important management issues, and proactively carries out a variety of measures to ensure sound corporate governance. The Company has a Board of Corporate Auditors, and in addition to statutory bodies including the annual General Meeting of Shareholders, the Board of Directors and the Board of Corporate Auditors, Mazda has an Executive Committee. Executive Committee meetings are held to formulate and discuss important Companywide policies and measures and receive reports necessary for the management of the business. Other advisory bodies that assist the president with decision making have also been established.

Mazda has introduced an executive officer system to enhance the effectiveness of the Board of Directors as a supervisory body by separating executive and management functions, and to further raise management efficiency through swift decision making resulting from fuller discussions by the Board of Directors and the delegation of authority to executive officers. As of June 30, 2008, Mazda had a total of 34 executive officers and nine directors, some of whom are also executive officers.

In addition, Mazda has established the Management Advisory Committee composed of leading figures from outside the Company and all Mazda directors. The committee meets four times a year. Mazda receives managerial opinions and recommendations from these committee members, who offer their specialized knowledge and insight from a global perspective. Mazda reflects the committee's input in its management practices, and this also results in greater management transparency.

Business Execution and Supervisory Framework



Supervisory Framework

Mazda's Board of Corporate Auditors is composed of five members, including three outside corporate auditors. Each corporate auditor is responsible for auditing the business execution of directors in accordance with the Board of Corporate Auditors' annual audit plan. There are no business relationships or other conflicts of interest between Mazda and its outside corporate auditors. The Global Auditing Department, with a staff of 22, is the internal audit department. This department contributes to sound and efficient management by auditing the legality and consistency of operations at Mazda and its affiliates in terms of management targets, policies and plans, and relevant laws and regulations, as well as the appropriateness and effectiveness of internal controls. Independent audits are conducted under contract by KPMG AZSA & Co.

Cooperation between corporate auditors and the independent auditor

Regular meetings are held between Mazda's corporate auditors or the Board of Corporate Auditors and the independent auditor to promote close cooperation between corporate auditors and the independent auditor. The independent auditor provides Mazda's corporate auditors with details of audit plans, any issues identified and the results of audits, while corporate auditors explain their audit plans, as well as the current status and results of these audits. Corporate auditors and the independent auditor also conduct joint audits in certain areas, including physical inspections of inventories and securities certificates. Furthermore, triparty meetings are regularly held to ensure cooperation among corporate auditors, the independent auditor and the internal audit department.

Cooperation between corporate auditors and internal audit departments

Corporate auditors meet regularly with internal auditing department and internal control and financial control promotion departments. At these meetings, internal auditing department provides details of the plans and results of its internal audits of Mazda and Group companies, and internal control and financial control promotion departments report on plans and the progress of those plans to reinforce financial and internal control systems at Mazda and Group companies. Corporate auditors also provide information obtained in the course of their audits and present requests they have from the perspective of corporate auditors. In addition, representatives of the internal audit departments attend every Group Audit Liaison Meeting organized by the corporate auditors.

Main activities of outside corporate auditors

Outside corporate auditors actively participate in the meetings of the Board of Corporate Auditors and also attend meetings of the Board of Directors, where they ask pertinent questions regarding directors' proposals and reports, provide appropriate input and express views from an audit perspective. Together with Mazda's full-time corporate auditors, outside corporate auditors receive reports from directors and executive officers, meet with representative directors, and inspect business offices and subsidiaries.

Corporate auditor support system

Mazda has established the Office of Corporate Auditors to support the activities of the corporate auditors. The Office of Corporate Auditors is independent of the Board of Directors, with its staff selected and evaluated by the personnel department after prior consultation with the full-time corporate auditors. The full-time corporate auditors brief outside corporate auditors on information obtained in the course of their daily activities, including their attendance at Executive Committee Meetings and other important meetings, and their opinions based on that information. These briefings are made prior to meetings of the Board of Directors or the Board of Corporate Auditors, or during meetings of the Board of Corporate Auditors.

Reporting crucial information to corporate auditors

In the event directors or executive officers become aware of certain facts that could have serious implications for the Company, they must immediately report this information to the corporate auditors. In addition, any major lawsuits or disputes, changes in accounting policy, serious incidents, government penalties or other matters that the Board of Corporate Auditors has stipulated as requiring joint discussion with directors and executive officers must be reported to the corporate auditors, even in cases where no significant impact on the Company is anticipated.

Internal Controls

The Internal Control Promotion Group was established within the CSR Promotion Department in June 2007 to achieve the internal control objectives of improving operational efficacy and efficiency, ensuring the reliability of

financial reports, complying with laws and regulations related to business activities and preserving assets. This group is responsible for promoting internal controls at the global level, focusing on (1) providing guidance, education and support for the promotion of internal controls at Mazda and Group companies, (2) planning and administering the Mazda Global Hotline and (3) controlling the management and use of confidential, personal and other information throughout the Mazda Group.

In addition, a dedicated department was established within the Financial Services Division in January 2008 to propose and promote financial controls, with the aim of creating an appropriate financial reporting process.

Risk Management

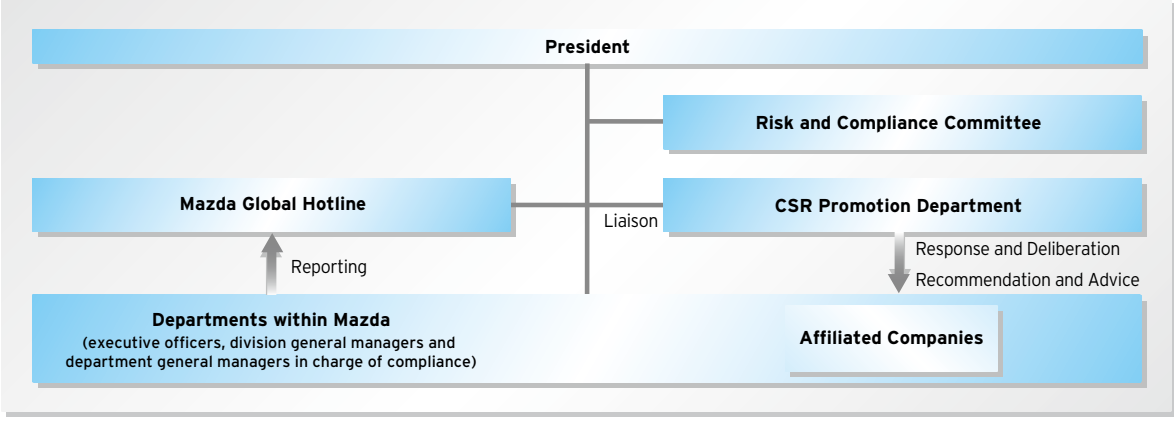
Based on its corporate action policy of unified action originating from all executives and employees, Mazda endeavors to appropriately manage various internal and external risks in order to ensure the Company's operational continuity and stable development. During the year, the Company carried out planned construction to reinforce the earthquake resistance of its plants and offices in the event of a major earthquake. A centralized management framework was also put in place to facilitate the prompt reporting to management of information that could significantly impact the Company's operations.

Compliance

Mazda considers compliance to involve not just observing laws and regulations but also acting in accordance with socially accepted corporate ethics, and the entire Group is working together to ensure that its operational development is always fair and honest.

The most important fundamental principle for a company is to conduct its business activities ethically and in compliance with relevant laws and regulations. Mazda formulated a Corporate Ethics Code of Conduct in 1998. This Code spells out "Five Principles of Integrity" for the Company and eight "Conduct Guidelines" for employees. These are listed on a Compliance Card that is distributed to all directors and employees for their reference when they have questions. We are working to ensure rigorous compliance. For example, to ensure that everyone understands our Corporate Ethics Code of Conduct, we are undertaking a range of activities, such as formulating guidelines and offering employee training programs. In addition, annual compliance seminars and human rights seminars are taught by outside instructors to instill a thorough knowledge among all directors and employees of the importance and necessity of corporate ethics in addition to legal compliance. In 2007, we took steps to further enhance our hotline services. The Ethics Consulting Office was changed to the Mazda Global Hotline, and in-house consultation services were complemented with the establishment of external, third-party consultation services, In addition, improvements were made to enable direct reporting from overseas consolidated subsidiaries and affiliates. Directors and employees who become aware of legal violations immediately report this information, and any retaliation or retribution toward people who report legal violations or who cooperate in investigations is prohibited.

Compliance Structure



Board of Directors, Auditors and Executive Officers (As of July 1, 2008)

Directors

Hisakazu Imaki
Representative Director and Chairman of the Board

Philip G. Spender
Representative Director

Takashi Yamanouchi
Representative Director

David E. Friedman
Representative Director

Daniel T. Morris
Director

Kiyoshi Ozaki
Director

Seita Kanai
Director

Masaharu Yamaki
Director

Masazumi Wakayama
Director

Corporate Auditors

Junichi Yamamoto (Full time)

Shigeki Wakamatsu (Full time)

Kenichi Komatsu

Ichiro Sakai

Isao Akaoka

Executive Officers

* President and CEO

Hisakazu Imaki

* Executive Vice President

Philip G. Spender
Assistant to President; In charge of R&D, Cost Innovation, Marketing, Sales, IT Solution, Quality Assurance and Environment

Takashi Yamanouchi
Assistant to President; In charge of Corporate Liaison, Purchasing, Human Resources, Administration, Secretariat and Global Auditing

* Senior Managing Executive Officer and CFO

David E. Friedman
In charge of Corporate Planning

* Senior Managing Executive Officers

Daniel T. Morris
In charge of Marketing and Overseas Sales

Kiyoshi Ozaki
In charge of Cost Innovation

Seita Kanai
In charge of R&D; President, Mazda Engineering & Technology Co., Ltd.

Masaharu Yamaki
In charge of Production, Business Logistics and IT Solution

Masazumi Wakayama
In charge of Domestic Business and Customer Service

* Executive Officers who also hold the post of Director.

Managing Executive Officers

Yuji Harada
In charge of Corporate Communications and Environment; Assistant to the CFO and Assistant in charge of Fleet Sales

Nobuhiro Hayama
In charge of R&D Quality and Powertrain Development

James J. O'Sullivan
President and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)

Akira Marumoto
In charge of Corporate Planning, Product Planning and Financial Services; Assistant to the Officer in charge of Cost Innovation

Keishi Egawa
Executive Vice President and COO, Mazda Motor of America, Inc. (Mazda North American Operations)

Toru Oka
In charge of Purchasing; Assistant to the Officer in charge of Cost Innovation

Malcolm D. Gough
Assistant for Sales Administration (In charge of Sales Expansion)

James M. Muir
President and CEO, Mazda Motor Europe GmbH

Nobuhide Inamoto
General Manager, Domestic Business Div.

Yasuto Tatsuta
In Charge of Quality Assurance; Assistant to the Officer in charge of R&D (In charge of Monotsukuri Innovation) and President, Toyo Advanced Technologies Co., Ltd.

A. Kumar Galhotra
In charge of Program Management; Assistant for Product Planning and General Manager, Product Planning Div.

Satoshi Tachikake
Chairman and CEO, Mazda Motor (China) Co., Ltd., and General Manager, China Business Div.

Hirotaka Kanazawa
In charge of Vehicle Development and Technical Research Center; Assistant to the Officer in charge of Cost Innovation

Masamichi Kogai
Assistant to the Production and Business Logistics Officer, Assistant to the Officer in charge of Cost Innovation and General Manager, Production Engineering Div.

Koji Kurosawa
In charge of Human Resources, Corporate Services, Risk Management, CSR and Mazda Hospital

Executive Officers

Shiro Mikami
In charge of Special Projects in the Domestic Business

Kozo Kawakami
General Manager, Customer Service Div. and President, Mazda Parts Co., Ltd.

Noriaki Yamada
COO, Mazda Motor (China) Co., Ltd.

Toshinori Kusuhashi
General Manager, Hiroshima Plant

Yuji Nakamine
General Manager, Overseas Sales Div. and President, Mazda South East Asia Ltd.

Hiroshi Yamamoto
In charge of Fleet Sales in the Domestic Business

Tatsuji Ikeda
General Manager, Quality Div.

Minoru Mitsuda
General Manager, Human Resources Div.

Masafumi Nakano
General Manager, Hofu Plant

Kazuki Imai
General Manager, Purchasing Div.

Financial Section

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Six-Year Summary of Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries
Year ended March 31, 2008, 2007, 2006, 2005, 2004 and 2003

	2008	2008/2007	2007	2007/2006
For the year*2:				
Net sales	¥3,475,789	7.0 %	¥3,247,485	11.2 %
Domestic	880,132	(0.8)%	887,327	(0.0)%
Overseas	2,595,657	10.0 %	2,360,158	16.1 %
North America	1,015,315	(0.3)%	1,017,874	20.6 %
Europe	888,555	12.6 %	789,135	18.0 %
Other areas	691,787	25.1 %	553,149	6.5 %
Cost of sales	2,485,905	7.0 %	2,322,644	10.0 %
Selling, general and administrative expenses	827,737	8.0 %	766,309	11.8 %
Operating income	162,147	2.3 %	158,532	28.4 %
Income before income taxes	143,117	20.8 %	118,450	0.8 %
Net income	91,835	24.5 %	73,744	10.5 %
Capital expenditures*3	75,518	(5.2)%	79,641	10.5 %
Depreciation and amortization	66,460	41.3 %	47,045	2.7 %
Research and development costs	114,400	6.4 %	107,553	12.4 %
Free cash flows*4	10,209	(51.4)%	20,995	(37.5)%
At the year-end:				
Total assets	¥1,985,566	4.1 %	¥1,907,752	6.7 %
Equity*5	554,154	15.5 %	479,882	17.8 %
Financial debt	504,979	6.4 %	474,684	4.2 %
Net financial debt	281,085	21.1 %	232,179	(5.9)%
Average number of shares outstanding (in thousands)	1,408,368	0.4 %	1,402,315	8.3 %
Number of employees	39,364	3.6 %	38,004	3.8 %
Amounts per share of common stock:				
Net income*6	¥ 65.21	24.0 %	¥ 52.59	2.1 %
Cash dividends applicable to the year*7	6.00	0.0 %	6.00	20.0 %
Equity*8	391.82	16.5 %	336.45	18.4 %
Operating income ratio	4.7 %	(0.2) points	4.9%	0.7 points
Return on equity (ROE)*9	17.9 %	1.0 points	16.9%	(3.1) points
Equity ratio*9	27.8 %	3.0 points	24.8%	2.5 points

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2008, of ¥100 to US$1.
2. The consolidated operating results for the year ended March 31, 2004, consist of 15 months of operations for the major overseas subsidiaries that changed their fiscal year-ends.
3. Capital expenditures are calculated on an accrual basis.
4. Free cash flows represent net cash flows from operating activities and from investing activities.
5. Prior-year amounts have been reclassified to conform to March 2007 fiscal year and current fiscal year presentation to include minority interests.
6. The computations of net income per share of common stock are based on the average number of shares outstanding during each fiscal year.
7. Cash dividends per share represent actual amounts applicable to the respective years.
8. The amounts of equity used in the calculation of equity per share, return on equity, and equity ratio exclude minority interests (and, for 2007 and 2008, stock acquisition rights).
9. The amounts of equity exclude minority interests (and, for 2007 and 2008, stock acquisition rights).

Millions of yen							Thousands of U.S. dollars*1
2006	2006/2005	2005	2005/2004	2004	2004/2003	2003	2008
¥2,919,823	8.3 %	¥2,695,564	(7.6)%	¥2,916,130	23.3 %	¥2,364,512	$34,757,890
887,662	5.0 %	845,620	(0.1)%	846,231	3.4 %	818,271	8,801,320
2,032,161	9.8 %	1,849,944	(10.6)%	2,069,899	33.9 %	1,546,241	25,956,570
843,988	10.8 %	761,684	(18.7)%	936,718	10.8 %	845,241	10,153,150
668,941	5.5 %	634,233	(3.9)%	659,813	79.3 %	368,045	8,885,550
519,232	14.4 %	454,027	(4.1)%	473,368	42.2 %	332,955	6,917,870
2,110,934	7.0 %	1,972,574	(8.9)%	2,165,160	25.5 %	1,725,058	24,859,050
685,454	7.1 %	640,043	(6.0)%	680,796	15.6 %	588,798	8,277,370
123,435	48.8 %	82,947	18.2 %	70,174	38.5 %	50,656	1,621,470
117,468	59.1 %	73,847	36.6 %	54,072	92.2 %	28,134	1,431,170
66,711	45.7 %	45,772	35.0 %	33,901	40.5 %	24,134	918,350
72,070	6.2 %	67,881	48.7 %	45,644	3.5 %	44,080	755,180
45,805	14.4 %	40,036	5.6 %	37,900	2.5 %	36,989	664,600
95,730	5.4 %	90,841	3.5 %	87,807	0.0 %	87,800	1,144,000
33,611	(6.4)%	35,900	(26.9)%	49,128	4.4 %	47,054	102,090
¥1,788,659	1.2 %	¥1,767,846	(1.5)%	¥1,795,573	2.4 %	¥1,754,017	$19,855,660
407,208	47.6 %	275,841	19.4 %	230,937	15.2 %	200,546	5,541,540
455,409	(13.8)%	528,145	(16.2)%	630,360	(7.1)%	678,205	5,049,790
246,751	(21.3)%	313,506	(12.5)%	358,129	(11.2)%	403,483	2,810,850
1,294,534	6.4 %	1,216,245	(0.1)%	1,217,692	(0.1)%	1,219,050	
36,626	2.7 %	35,680	0.1 %	35,627	(1.5)%	36,184	
Yen							U.S. dollars*1
¥ 51.53	36.9 %	¥ 37.63	35.2 %	¥ 27.84	40.6 %	¥ 19.80	$0.65
5.00	66.7 %	3.00	50.0 %	2.00	0.0 %	2.00	0.06
284.28	29.1 %	220.22	20.4 %	182.91	14.9 %	159.22	3.92
%							
4.2%	1.1 points	3.1%	0.7 points	2.4%	0.3 points	2.1%	
20.0%	1.3 points	18.7%	2.4 points	16.3%	3.1 points	13.2%	
22.3%	7.2 points	15.1%	2.7 points	12.4%	1.3 points	11.1%	

Management's Discussion and Analysis

MARCH 2008 FISCAL YEAR HIGHLIGHTS

- Record profit at all levels, with a 2.3% increase in operating income, to ¥162.1 billion, and 24.5% net income growth, to ¥91.8 billion, and seventh consecutive year of revenue and profit growth.
- Global sales grew 4.7%, to 1,363 thousand units. Excluding the effect from the discontinuation of production of Mazda brand vehicles in Hainan, China, actual growth was 11%.
- Dividend maintained at previous year's ¥6.0 per share.

OVERVIEW OF THE MAZDA GROUP

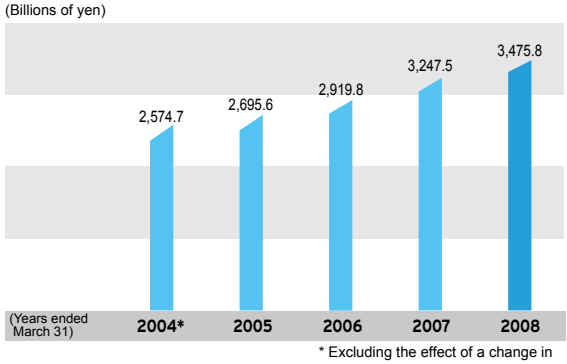
The consolidated financial statements for the March 2008 fiscal year, include the accounts of Mazda Motor Corporation, 58 consolidated subsidiaries (22 overseas and 36 in Japan) and 13 equity-method affiliates (5 overseas and 8 in Japan).

BUSINESS CONDITIONS

The economic environment continued to pose many elements of risk and uncertainty for the Mazda Group both in Japan and overseas during the March 2008 fiscal year, with unrest in international capital markets, a global economic slowdown, and sharply higher prices for energy and crude oil. Japan's exports to many regions including emerging markets and oil-producing countries continued to grow, and there was an upward trend in corporate capital investment. On the other hand, prices of domestic corporate goods and consumer prices rose against the backdrop of high international commodity prices. There was also a trend of declining consumer sentiment, with a drop in housing investment and weak unit sales of new cars. The effect of these factors was further exacerbated by exchange rate fluctuations, leading to a slowdown in the domestic economy.

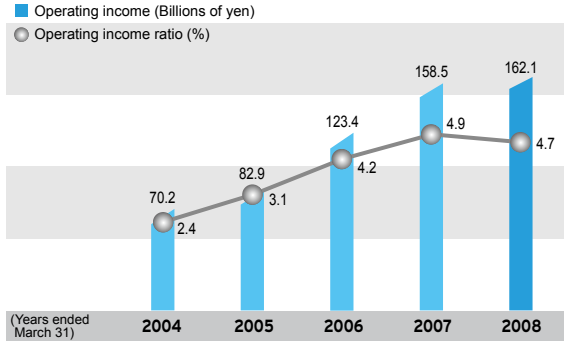
The automotive industry saw an extension of the replacement purchase cycle and a rise in fuel prices, and total domestic automobile demand declined 5%, to 5.32 million units. The U.S. market also contracted 4%, to 15.84 million units, while Europe, including Russia, posted 10% growth, to 21.01 million units. The Chinese market grew 22%, to 9.25 million units.

Net sales



* Excluding the effect of a change in fiscal years at overseas subsidiaries.

Operating income / Operating income ratio



CONSOLIDATED FINANCIAL RESULTS

Net sales

Despite the successful introduction of the new Mazda2, weak overall demand led to a 1.9% sales decline in Japan, to 256,000 units. North American sales rose 6.8%, to 406,000 units, on the sustained popularity of the Mazda3 combined with strong sales of the Mazda CX-9. The Mazda CX-7 and a new Mazda2 were introduced in Europe, and sales rose 7.4%, to 327,000 units. China recorded a 21.8% decline, to 101,000 units, reflecting the discontinuation of production of the Mazda 323 (Famila), which had been sold as a Mazda brand vehicle, and the Mazda Premacy (previous model). Sales in other markets grew 20.4%, to 273,000 units, on the boost from sales of the new Mazda2 and Mazda CX-7. In total, Mazda's global sales volume grew 4.7%, to 1,363 thousand units.

The March 2008 fiscal year wholesales (on a consolidated basis) increased by 63,000 units (5.4%), to 1.24 million units, primarily reflecting strong sales in Europe of the new Mazda6 and the new Mazda2.

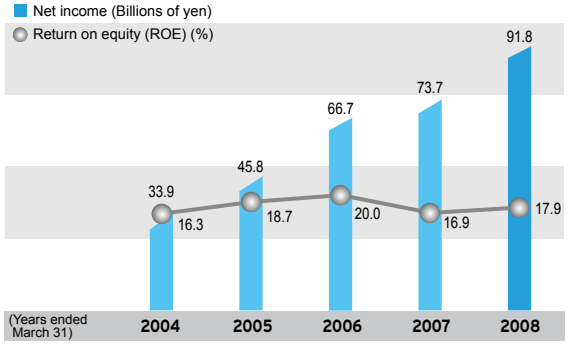
As a result, consolidated net sales for the year were ¥228.3 billion (7.0%) higher, at ¥3,475.8 billion. Of this 7.0% increase, 4.0% came from increased sales volume and an improved model mix, and 3.0% was a reflection of the weaker yen. The consolidated net sales figure breaks down as a ¥235.5 billion (10.0%) increase in overseas sales, to ¥2,595.7 billion, and a ¥7.2 billion (0.8%) decline in domestic sales, to ¥880.1 billion.

Operating income

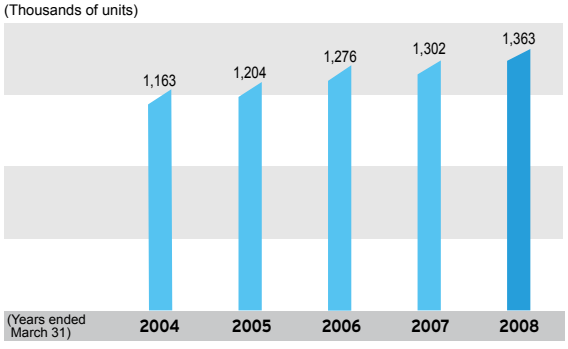
Operating income for the year rose ¥3.6 billion (2.3%), to ¥162.1 billion.

The main components of this increase included ¥8.0 billion from increased sales volume and an improved model mix, ¥23.4 billion from foreign exchange factors, with the dollar's weakening against the yen being more than offset by the yen's weakening against the euro and other currencies, and ¥15.8 billion in cost reductions that more than covered the sharp rise in expenses for raw materials. Sales volume grew on the introduction of new models and strong sales in other areas, and the model mix improved in Europe, but this was partially offset by inventory adjustments in the U.S. and Europe. These gains were partially canceled out by expense increases, however, with a ¥13.3 billion increase in spending for improvements in the new Mazda2 and new Mazda6, a ¥4.2 billion increase in fixed marketing expenses, primarily from the introduction of new models in Europe, and a ¥26.1 billion increase in the expense burden from research and development cost and depreciation. Because the rate of increase in operating income trailed the increase in net sales, the operating income ratio declined by 0.2 percentage points, to 4.7%.

Net income / Return on equity (ROE)



Global sales



Net income

Net other expenses declined by ¥21.1 billion, to ¥19.0 billion. In addition to a ¥12.4 billion improvement in the foreign exchange valuation loss, profit from equity-method investments rose ¥2.3 billion. As a result, pretax net income rose ¥24.7 billion (20.8%), to ¥143.1 billion.

Income taxes rose ¥7.6 billion, to ¥50.6 billion, and minority interests in consolidated subsidiaries declined ¥1.0 billion, to ¥0.7 billion. As a result, consolidated net income grew ¥18.1 billion (24.5%), to ¥91.8 billion. Net income per share of common stock increased ¥12.62, to ¥65.21, from ¥52.59 in the March 2007 fiscal year. Record profits were achieved at all levels in the March 2008 fiscal year, which was also the seventh consecutive year of revenue and profit growth.

Dividend

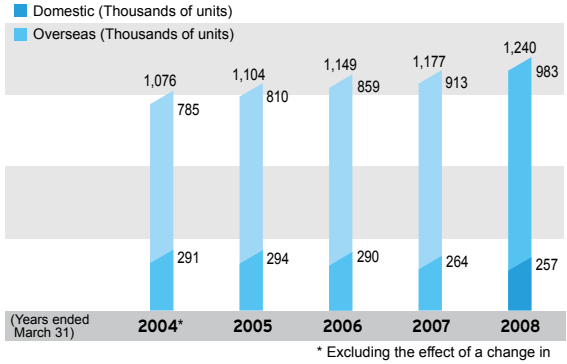
A year-end dividend of ¥3.0 per share was approved at the annual general meeting of shareholders held on June 25, 2008. Combined with the interim dividend of ¥3.0 per share, this brought the full-year dividend to ¥6.0. Mazda's policy is to set the dividend by taking into account each year's earnings and the operating environment, and to pay a stable dividend while striving to increase the amount.

Capital expenditures

Although production capacity at the company's two main plants—the Hiroshima plant and the Hofu plant—was increased and investments for new models continued, capital expenditures for the year declined by ¥4.1 billion, to ¥75.5 billion. Depreciation and amortization expenses rose ¥19.5 billion, to ¥66.5 billion, reflecting increases in capital spending over recent years and accounting changes that included moving the treatment of lease assets on balance sheet.

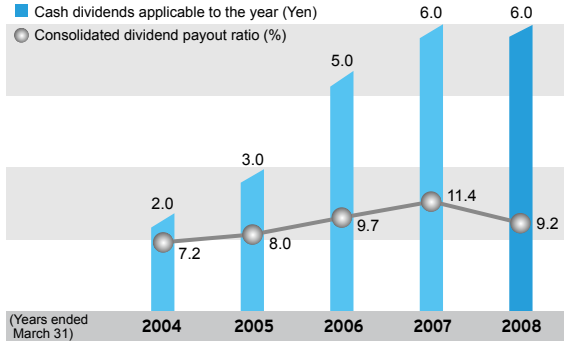
Production capacity was increased to accommodate the continuation of product-led growth, and during the year annual domestic capacity surpassed the one million unit level. April 2007 saw the commencement of engine mass production at Changan Ford Mazda Engine Co., Ltd., a joint venture between Mazda, Ford Motor Company, and the Changan Automotive Group in Nanjing Province, China. This joint venture's vehicle assembly plant also commenced mass production of the Mazda2 in October 2007. In addition, a new Ford joint venture passenger vehicle plant is being built at AutoAlliance (Thailand) Co., Ltd., as planned, with manufacturing of small passenger vehicles scheduled to start during 2009.

Consolidated wholesales



* Excluding the effect of a change in fiscal years at overseas subsidiaires.

Cash dividends applicable to the year / Consolidated dividend payout ratio



Research and development

Spending on research and development rose ¥6.8 billion, to ¥114.4 billion. Under the banner of Mazda's "Zoom-Zoom" brand message, we are strengthening our efforts to develop environmental and safety technologies based on the long-term technology development vision of "Sustainable Zoom-Zoom." This means developing products that customers will find attractive, while at the same time striving to achieve a sustainable automobile society.

In November 2007, Mazda agreed to participate in Norway's national HyNor project by providing hydrogen-powered rotary engine (RE) vehicles that we have been selling on a lease basis in Japan. We intend to successively deliver a total of 30 Mazda RX-8 hydrogen RE vehicles to HyNor from the summer of 2008, which will represent our first overseas deliveries of hydrogen-powered rotary engine vehicles.

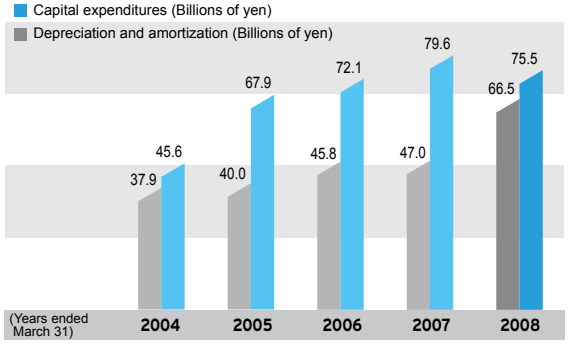
In addition, Mazda began public road trials of its advanced safety vehicle (ASV), the Mazda ASV-4, in the Hiroshima area in March 2008, with the aim of reducing traffic accidents based on the Ministry of Land, Infrastructure, Transport and Tourism's Advanced Safety Vehicle Promotion Plan. By conducting these trials in the same area as the Intelligent Transport System experiments that have been carried out since the beginning of the year, Mazda also intends to evaluate the compatibility of road-to-vehicle and vehicle-to-vehicle communication systems.

FINANCIAL POSITION

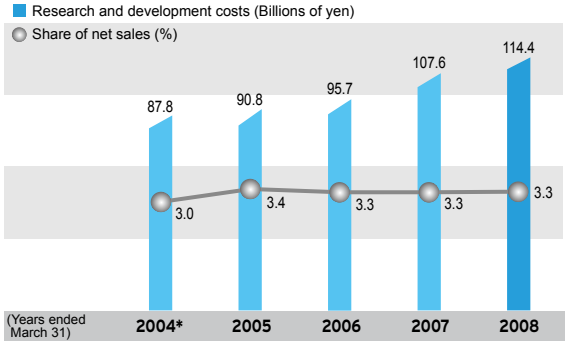
Total assets as of March 31, 2008, stood at ¥1,985.6 billion, which was ¥77.8 billion higher than as of the previous year-end. Cash and cash equivalents decreased ¥18.6 billion, to ¥223.9 billion. Inventories grew ¥5.3 billion, to ¥287.7 billion, reflecting sales growth. Net property, plant and equipment increased ¥41.2 billion, to ¥898.4 billion, reflecting the on-balance-sheet treatment of lease assets (please refer to page 71 to 73 "New Accounting Standards") and growth in capital expenditures that outpaced depreciation.

The total of short- and long-term interest-bearing debt grew ¥30.3 billion, to ¥505.0 billion. This was primarily the result of the on-balance-sheet treatment of lease assets, and was partially offset by repayments. Net interest-bearing debt, which deducts the ¥223.9 billion in cash and cash equivalents outstanding as of the fiscal year-end, increased ¥48.9 billion, to ¥281.1 billion, resulting in a 2.0 percentage point rise in the net debt-to-equity ratio, to 51%.

Capital expenditures / Depreciation and amortization



Research and development costs / Share of net sales



* Excluding the effect of a change in fiscal years at overseas subsidiaires.

Equity as of the fiscal year-end increased ¥74.3 billion from the previous year-end, to ¥554.2 billion, primarily from the recording of ¥91.8 billion in net income. Equity per share rose ¥55.37 (16.5%), to ¥391.82, from ¥336.45 at the end of the previous year. Equity—calculated as net assets less minority interests and stock acquisition rights—stood at ¥552.2 billion, for a 3.0 percentage point increase in the equity ratio, to 27.8%.

CASH FLOWS

Cash and cash equivalents ("cash") as of March 31, 2008, totaled ¥223.9 billion, which was ¥18.6 billion less than at the previous fiscal year-end. Although operating activities generated ¥103.0 billion in net cash, investing activities used cash in the amount of ¥92.8 billion and financing activities used ¥24.1 billion.

(Cash Flow from Operating Activities)
Operating activities during the year generated net cash in the amount of ¥103.0 billion. Principal items were ¥143.1 billion in pretax net income and ¥66.5 billion in depreciation and amortization expenses, and the payment of corporate income taxes.

(Cash Flow from Investing Activities)
Investing activities used net cash in the amount of ¥92.8 billion, the main component of which was ¥79.6 billion of capital expenditures for the acquisition of plant and equipment.

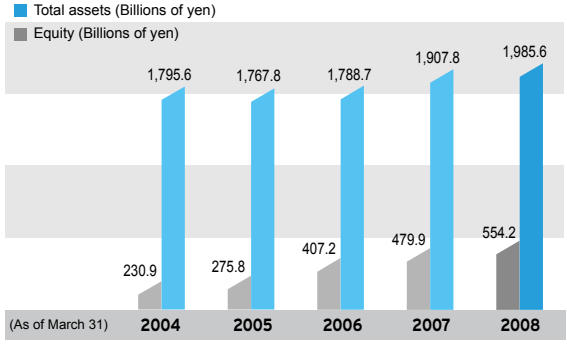
(Cash Flow from Financing Activities)
Financing activities used net cash in the amount of ¥24.1 billion, as the repayment of interest-bearing debt outpaced procurement. This also reflects dividend payments.

Free cash flow—the sum of cash flows from operating and investing activities—totaled ¥10.2 billion for the year.

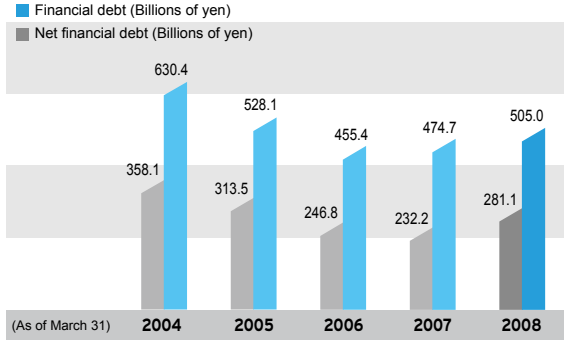
MARCH 2009 FISCAL YEAR OUTLOOK

Our forecasts for the March 2009 fiscal year are shown next page. Although global retail sales are seen increasing on the contributions from the new Mazda2 and new Mazda6 and sales volumes and the model mix are expected to improve with the introduction of new models, we expect these gains to be more than offset by the adverse external factors of a strong yen and rises in raw material prices. Our exchange rate assumptions for the year are ¥100/U.S. dollar and ¥150/euro.

Total assets / Equity



Financial debt / Net financial debt



- Global retail sales: 1.48 million units (an 8.6% increase from the March 2008 fiscal year)
- Net sales: ¥3,000.0 billion (a 13.7% decrease from the March 2008 fiscal year*)
- Operating income: ¥115.0 billion (a 29.1% decrease from the March 2008 fiscal year)
- Net income: ¥70.0 billion (a 23.8% decrease from the March 2008 fiscal year)

* Changes in accounting policies are planned for next year in accordance with the application of the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18).

Despite the adverse external environment, Mazda will continue to work toward achieving the targets set in the Mazda Advancement Plan by accelerating innovations to reduce costs and promoting brand value, while maintaining a path of product-led growth.

BUSINESS RISKS

Significant risks that could affect the Company's business results and financial position include those listed below. This, however, does not represent a comprehensive list of all the risks faced by the Mazda Group at the current time.

1. Economic Conditions Impacting the Mazda Group

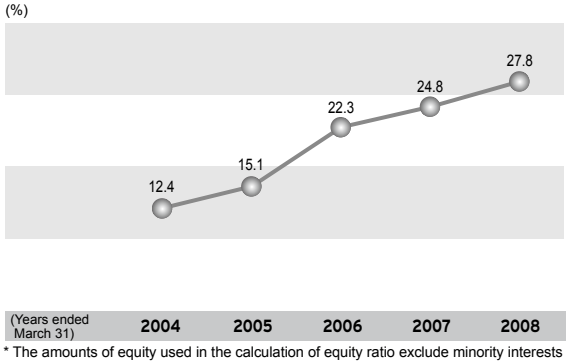
The Mazda Group sells products in Japan and around the world, including in North America, Europe and Asia. An economic downturn or declining demand in these markets could adversely affect Mazda's business results and financial position.

2. Exchange Rates

The Mazda Group exports products from Japan to the rest of the world and consequently its business results and financial position are exposed to the effects of fluctuations in exchange rates. An appreciation of the yen, particularly against the U.S. dollar and euro, could lower the Mazda Group's profitability and ability to compete on price.

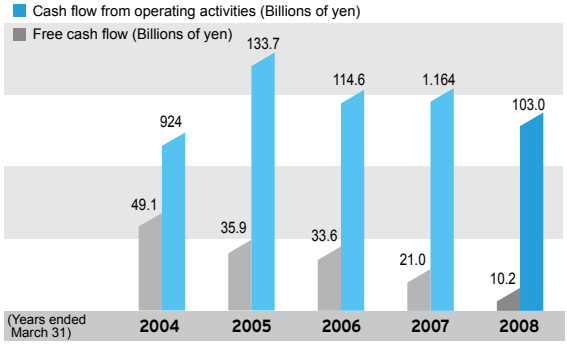
Mazda uses forward-exchange contracts and other instruments in some of its transactions to minimize the impact of short-term exchange rate risk. However, a weakening of the yen could result in a loss of contingent gains.

Equity ratio*



* The amounts of equity used in the calculation of equity ratio exclude minority interests (and, for 2007 and 2008, stock acquisition rights).

Cash flows



3. Alliances and Mergers

The Mazda Group is involved in joint activities with other companies under technology alliances, joint ventures and in other forms with respect to the development, production and sales of products. These joint activities are designed to optimize resources, facilitate their prioritization and generate synergies. However, a disagreement over management, financial or other matters between the parties involved could mean that the joint activities fail to deliver the results expected. This could adversely affect the Mazda Group's business results and financial position.

4. Laws and Regulations

The Mazda Group's operations in each country where it does business are subject to various government regulations such as those pertaining to environmental issues, automobile safety, fuel consumption and exhaust emissions. Compliance with new regulations could result in substantial additional costs, which could adversely affect Mazda Group's business results and financial position.

5. Market Competitiveness

The Mazda Group competes with a large number of companies in the global automobile market. Maintaining and enhancing the Group's ability to compete in this environment is crucial to ensuring growth. Consequently, the Mazda Group is implementing a range of initiatives to boost its competitiveness in product development, manufacturing, sales and other areas. However, the Mazda Group's business results and financial position could be affected in the event that it fails to launch appealing products at opportune times, due to a failure to accurately ascertain market trends or as a result of issues related to technological capabilities and manufacturing. The same holds true if the Mazda Group fails to take effective steps to respond to customer values or changes thereof, including declines in market share or product prices, through its dealership network or sales methods.

6. Procurements of Materials and Parts

The Mazda Group relies on numerous suppliers outside the Group for the procurement of materials and components. However, due to tight supply-demand balances, constraints at suppliers, or changes to and breaches of supply contracts, the Mazda Group may face difficulties in procuring the necessary level of materials and components for volume production, leading to a rapid increase in the price of materials procured. Any failure to cover the cost of these increases through internal efforts to boost productivity, pass on price rises to customers or other measures, may lead to a deterioration in output or higher costs, which could adversely affect the Mazda Group's business results and financial position.

7. International Business Activities

In addition to Japan, the Mazda Group sells its products and carries out business activities in markets around the world, including the United States and Europe, as well as developing and emerging markets overseas. In these markets, the Group is subject to the following potential risks, which could affect Mazda Group's business results and financial position if manifested:

- Adverse political and economic developments
- Impediments arising from changes in laws and regulations
- Potential adverse impact from tax regulations
- Difficulties in attracting and securing personnel
- Undeveloped infrastructure
- Strikes and other labor disputes
- Terrorist incidents, war, disease and other factors leading to social disorder

8. Protection of Intellectual Property

In order to maintain competitiveness, the Mazda Group is working to accumulate and protect technologies and expertise that help it to develop unique products. At the same time, the Group is taking steps to prevent the infringement of third-party intellectual property rights. Nonetheless, in the event of a disputed infringement of third-party intellectual property rights by the Mazda Group, the Mazda Group may be subject to substantial damages claims or be forced to halt the production and sale of products. This could also adversely affect the Mazda Group's business results and financial position.

The Mazda Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use the Group's intellectual property on an unauthorized basis to produce similar products, the Group may have to pay substantial expenses for litigation, or experience a decline in sales due to an inability to offer unique products. This could adversely affect the Mazda Group's business results and financial position.

9. Defective Products

While striving to improve the quality of its products to meet the requirements of the market, the Mazda Group also does its utmost to ensure the safety of its products. However, the Group cannot guarantee that large-scale product recalls or other issues will not occur due to product defects arising from unforeseen circumstances. Such events may lead to significant costs or a loss of trust in the Group, which could adversely affect Mazda's business results and financial position.

10. Natural Disasters and Accidents

In addition to measures to protect its manufacturing sites and other important facilities against fire and earthquakes, the Mazda Group has concluded natural disaster insurance contracts and taken other steps to minimize the financial risk of such events. However, the ability of the Mazda Group to supply products may be severely disrupted in the event of a major earthquake, typhoon or other natural disaster, fire and other accidents, which could adversely affect the Mazda Group's business results and financial position.

Consolidated Balance Sheets

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2008 and 2007

ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and cash equivalents	¥ 223,894	¥ 242,505	$ 2,238,940
Short-term investments	73	5,064	730
Trade notes and accounts receivable	201,259	172,958	2,012,590
Inventories (Note 5)	287,716	282,432	2,877,160
Deferred taxes (Note 13)	92,594	97,184	925,940
Other current assets	91,795	58,595	917,950
Allowance for doubtful receivables	(2,019)	(2,816)	(20,190)
Total current assets	895,312	855,922	8,953,120
Property, plant and equipment:			
Land (Note 6)	442,237	442,901	4,422,370
Buildings and structures	432,510	420,916	4,325,100
Machinery and equipment	809,447	779,645	8,094,470
Tools, furniture, fixtures and other	196,538	212,208	1,965,380
Leased properties	73,458	—	734,580
Construction in progress	25,161	46,630	251,610
	1,979,351	1,902,300	19,793,510
Accumulated depreciation	(1,080,983)	(1,045,146)	(10,809,830)
Net property, plant and equipment (Note 7)	898,368	857,154	8,983,680
Intangible assets	33,951	28,871	339,510
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	87,611	79,028	876,110
Other	4,861	19,726	48,610
Long-term loans receivable	6,293	6,063	62,930
Deferred taxes (Note 13)	45,516	48,449	455,160
Other investments and other assets	18,591	16,418	185,910
Allowance for doubtful receivables	(4,329)	(3,271)	(43,290)
Investment valuation allowance	(608)	(608)	(6,080)
Total investments and other assets	157,935	165,805	1,579,350
Total assets	¥ 1,985,566	¥ 1,907,752	$ 19,855,660

See accompanying notes.

LIABILITIES AND EQUITY	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term debt (Note 8)	¥ 69,851	¥ 70,340	$ 698,510
Long-term debt due within one year (Note 8)	66,024	63,495	660,240
Trade notes and accounts payable	336,731	300,577	3,367,310
Accrued expenses	280,340	343,491	2,803,400
Reserve for warranty expenses	51,535	42,555	515,350
Other current liabilities	40,454	44,778	404,540
Total current liabilities	844,935	865,236	8,449,350
Long-term liabilities:			
Long-term debt due after one year (Note 8)	369,104	340,849	3,691,040
Deferred tax liability related to land revaluation (Note 6)	93,740	93,773	937,400
Employees' severance and retirement benefits (Note 9)	99,844	111,565	998,440
Directors' and corporate auditors' retirement benefits	—	1,460	—
Other long-term liabilities	23,789	14,987	237,890
Total long-term liabilities	586,477	562,634	5,864,770
Contingent liabilities (Note 10)			
Equity:			
Paid-in capital and retained earnings:			
Common stock:			
Authorized: 3,000,000,000 shares			
Issued: 1,418,509 thousand shares in 2008 and 1,414,878 thousand shares in 2007 (Note 11)	150,068	149,513	1,500,680
Capital surplus (Note 11)	133,838	133,393	1,338,380
Retained earnings	167,332	90,024	1,673,320
Treasury stock (9,205,707 shares in 2008 and 7,845,934 shares in 2007)	(4,549)	(3,338)	(45,490)
Total paid-in capital and retained earnings	446,689	369,592	4,466,890
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities	545	1,034	5,450
Net gain/(loss) on derivative instruments	4,158	(865)	41,580
Land revaluation (Note 6)	136,048	136,097	1,360,480
Foreign currency translation adjustments	(34,090)	(31,528)	(340,900)
Pension adjustments recognized by an overseas consolidated subsidiary	(1,160)	(927)	(11,600)
Total valuation and translation adjustments	105,501	103,811	1,055,010
Stock acquisition rights	209	67	2,090
Equity attributable to shareholders of Mazda Motor Corporation	552,399	473,470	5,523,990
Minority interests in consolidated subsidiaries	1,755	6,412	17,550
Total equity	554,154	479,882	5,541,540
Total liabilities and equity	¥1,985,566	¥1,907,752	$19,855,660

Consolidated Statements of Income

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S dollars (Note 1)
	2008	2007	2006	2008
Net sales	¥3,475,789	¥3,247,485	¥2,919,823	$34,757,890
Cost and expenses:				
Cost of sales	2,485,905	2,322,644	2,110,934	24,859,050
Selling, general and administrative expenses	827,737	766,309	685,454	8,277,370
	3,313,642	3,088,953	2,796,388	33,136,420
Operating income	162,147	158,532	123,435	1,621,470
Other income (expenses):				
Interest and dividend income	4,740	2,877	2,359	47,400
Interest expense	(19,020)	(16,254)	(11,662)	(190,200)
Equity in net income of unconsolidated subsidiaries and affiliated companies	8,409	6,151	8,976	84,090
Other, net (Note 12)	(13,159)	(32,856)	(5,640)	(131,590)
	(19,030)	(40,082)	(5,967)	(190,300)
Income before income taxes	143,117	118,450	117,468	1,431,170
Income taxes (Notes 13 and 14):				
Current	43,710	36,776	26,439	437,100
Prior year	6,290	3,229	10,201	62,900
Deferred	555	2,973	12,454	5,550
	50,555	42,978	49,094	505,550
Income before minority interests	92,562	75,472	68,374	925,620
Minority interests of consolidated subsidiaries	(727)	(1,728)	(1,663)	(7,270)
Net income	¥ 91,835	¥ 73,744	¥ 66,711	$ 918,350

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income:				
Basic	¥65.21	¥52.59	¥51.53	$0.65
Diluted	65.09	52.19	47.25	0.65
Cash dividends applicable to the year	6.00	6.00	5.00	0.06

See accompanying notes.

Consolidated Statements of Equity

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

		Millions of yen							
		Equity attributable to shareholders of Mazda Motor Corporation							
		Paid-in capital and retained earnings							
	Shares of common stock in thousands	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2005	1,223,911	¥120,295	¥104,435	¥ (34,581)	¥(2,197)	¥ 79,863	¥ —	¥ 8,026	¥275,841
Exercise of stock acquisition rights (convertible bonds)	183,431	28,065	28,065	—	—	—	—	—	56,130
Net income	—	—	—	66,711	—	—	—	—	66,711
Treasury stock	—	—	(115)	—	(114)	—	—	—	(229)
Cash dividends paid	—	—	—	(3,648)	—	—	—	—	(3,648)
Net unrealized gains on available-for-sale securities	—	—	—	—	—	863	—	—	863
Land revaluation	—	—	—	(4,477)	—	4,477	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	10,382	—	—	10,382
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	1,158	1,158
Balance at March 31, 2006	1,407,342	¥148,360	¥132,385	¥ 24,005	¥(2,311)	¥ 95,585	¥ —	¥ 9,184	¥407,208
Exercise of stock acquisition rights (convertible bonds)	7,536	1,153	1,153	—	—	—	—	—	2,306
Net income	—	—	—	73,744	—	—	—	—	73,744
Treasury stock	—	—	(145)	—	(1,027)	—	—	—	(1,172)
Cash dividends paid	—	—	—	(7,001)	—	—	—	—	(7,001)
Net unrealized losses on available-for-sale securities	—	—	—	—	—	(251)	—	—	(251)
Net losses on derivative instruments	—	—	—	—	—	(865)	—	—	(865)
Land revaluation	—	—	—	(724)	—	725	—	—	1
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	9,544	—	—	9,544
Pension adjustments recognized by an overseas subsidiary	—	—	—	—	—	(927)	—	—	(927)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	67	—	67
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(2,772)	(2,772)
Balance at March 31, 2007	1,414,878	¥149,513	¥133,393	¥ 90,024	¥(3,338)	¥103,811	¥ 67	¥ 6,412	¥479,882
Exercise of stock acquisition rights (convertible bonds)	**3,631**	**555**	**555**	**—**	**—**	**—**	**—**	**—**	**1,110**
Net income	**—**	**—**	**—**	**91,835**	**—**	**—**	**—**	**—**	**91,835**
Treasury stock	**—**	**—**	**(110)**	**—**	**(1,211)**	**—**	**—**	**—**	**(1,321)**
Cash dividends paid	**—**	**—**	**—**	**(12,670)**	**—**	**—**	**—**	**—**	**(12,670)**
Net unrealized losses on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(489)**	**—**	**—**	**(489)**
Net gain on derivative instruments	**—**	**—**	**—**	**—**	**—**	**5,023**	**—**	**—**	**5,023**
Land revaluation	**—**	**—**	**—**	**49**	**—**	**(49)**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(2,562)**	**—**	**—**	**(2,562)**
Pension adjustments recognized by an overseas subsidiary	**—**	**—**	**—**	**—**	**—**	**(233)**	**—**	**—**	**(233)**
Cumulative effect of applying FASB Interpretation No. 48 by an overseas subsidiary	**—**	**—**	**—**	**(1,906)**	**—**	**—**	**—**	**—**	**(1,906)**
Stock acquisition rights from granting of share-based payment	**—**	**—**	**—**	**—**	**—**	**—**	**142**	**—**	**142**
Minority interests in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,657)**	**(4,657)**
Balance at March 31, 2008	**1,418,509**	**¥150,068**	**¥133,838**	**¥167,332**	**¥(4,549)**	**¥105,501**	**¥209**	**¥ 1,755**	**¥554,154**

	Thousands of U.S. dollars (Note 1)							
	Equity attributable to shareholders of Mazda Motor Corporation							
	Paid-in capital and retained earnings							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2007	$1,495,130	$1,333,930	$ 900,240	$(33,380)	$1,038,110	$ 670	$ 64,120	$4,798,820
Exercise of stock acquisition rights (convertible bonds)	**5,550**	**5,550**	**—**	**—**	**—**	**—**	**—**	**11,100**
Net income	**—**	**—**	**918,350**	**—**	**—**	**—**	**—**	**918,350**
Treasury stock	**—**	**(1,100)**	**—**	**(12,110)**	**—**	**—**	**—**	**(13,210)**
Cash dividends paid	**—**	**—**	**(126,700)**	**—**	**—**	**—**	**—**	**(126,700)**
Net unrealized losses on available-for-sale securities	**—**	**—**	**—**	**—**	**(4,890)**	**—**	**—**	**(4,890)**
Net gain on derivative instruments	**—**	**—**	**—**	**—**	**50,230**	**—**	**—**	**50,230**
Land revaluation	**—**	**—**	**490**	**—**	**(490)**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**(25,620)**	**—**	**—**	**(25,620)**
Pension adjustments recognized by an overseas subsidiary	**—**	**—**	**—**	**—**	**(2,330)**	**—**	**—**	**(2,330)**
Cumulative effect of applying FASB Interpretation No. 48 by an overseas subsidiary	**—**	**—**	**(19,060)**	**—**	**—**	**—**	**—**	**(19,060)**
Stock acquisition rights from granting of share-based payment	**—**	**—**	**—**	**—**	**—**	**1,420**	**—**	**1,420**
Minority interests in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**(46,570)**	**(46,570)**
Balance at March 31, 2008	**$1,500,680**	**$1,338,380**	**$1,673,320**	**$(45,490)**	**$1,055,010**	**$2,090**	**$ 17,550**	**$5,541,540**

See accompanying notes.

Consolidated Statements of Cash Flows

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities:				
Income before income taxes	¥143,117	¥118,450	¥117,468	$1,431,170
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	66,460	47,045	45,805	664,600
Loss on impairment of fixed assets	2,196	3,356	36,650	21,960
Allowance for doubtful receivables	253	(981)	(206)	2,530
Investment valuation allowance	—	(21)	(115)	—
Reserve for warranty expenses	10,772	13,281	4,734	107,720
Adoption of revised accounting standard for leases	1,144	—	—	11,440
Employees' severance and retirement benefits	(11,721)	(13,479)	(71,087)	(117,210)
Interest and dividend income	(4,740)	(2,877)	(2,359)	(47,400)
Interest expense	19,020	16,254	11,662	190,200
Equity in net income of unconsolidated subsidiaries and affiliated companies	(8,409)	(6,151)	(8,976)	(84,090)
Loss on sale/disposition of property, plant and equipment, net	3,030	3,380	5,961	30,300
Loss (gain) on sale of investment securities, net	(27)	16	(1,407)	(270)
Insurance claim income	—	—	(996)	—
Increase in trade notes and accounts receivable	(14,595)	(3,061)	(17,577)	(145,950)
(Increase) decrease in inventories	(17,472)	(14,741)	10,332	(174,720)
Increase (decrease) in trade notes and accounts payable	39,204	(16,654)	10,974	392,040
Increase (decrease) in other current liabilities	(31,356)	22,313	(15,989)	(313,560)
Other	(24,365)	3,323	(243)	(243,650)
Subtotal	172,511	169,453	124,631	1,725,110
Interest and dividends received	7,977	5,445	2,838	79,770
Interest paid	(19,458)	(16,358)	(11,292)	(194,580)
Insurance proceeds received	—	—	15,554	—
Income taxes paid	(58,061)	(42,182)	(17,133)	(580,610)
Net cash provided by operating activities	102,969	116,358	114,598	1,029,690
Cash flows from investing activities:				
Purchase of investment securities	(2,004)	(5,876)	(8,875)	(20,040)
Sale of investment securities	98	92	2,823	980
Purchase of investments in subsidiaries affecting scope of consolidation	—	—	31	—
Purchase of additional shares of stock in subsidiaries from minority shareholders	(9,194)	—	—	(91,940)
Additions to property, plant and equipment	(79,597)	(77,131)	(75,548)	(795,970)
Proceeds from sale of property, plant and equipment	3,186	5,031	3,949	31,860
Decrease (increase) in short-term loans receivable	5	(1,280)	228	50
Long-term loans receivable made	(459)	(60)	(110)	(4,590)
Collections of long-term loans receivable	153	317	162	1,530
Other	(4,948)	(16,456)	(3,647)	(49,480)
Net cash used in investing activities	(92,760)	(95,363)	(80,987)	(927,600)
Cash flows from financing activities:				
Decrease in short-term debt	(574)	(11,689)	(8,845)	(5,740)
Proceeds from long-term debt	69,094	95,091	92,102	690,940
Repayment of long-term debt	(76,914)	(62,133)	(119,502)	(769,140)
Cash dividends paid	(12,670)	(7,000)	(3,930)	(126,700)
Cash dividends paid to the minority shareholders of consolidated subsidiaries	(644)	(4,452)	(282)	(6,440)
Other	(2,387)	(471)	(2,995)	(23,870)
Net cash (used in)/provided by financing activities	(24,095)	9,346	(43,452)	(240,950)
Effect of exchange rate fluctuations on cash and cash equivalents	(4,725)	3,506	3,860	(47,250)
Net (decrease)/increase in cash and cash equivalents	(18,611)	33,847	(5,981)	(186,110)
Cash and cash equivalents at beginning of the year	242,505	208,658	214,639	2,425,050
Cash and cash equivalents at end of the year	¥223,894	¥242,505	¥208,658	$2,238,940

See accompanying notes.

Notes to Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law (formerly Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles ("GAAP") prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Mazda Motor Corporation (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law (formerly Securities and Exchange Law). Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and 58 subsidiaries (58 in the year ended March 31, 2007 and 58 in the year ended March 31, 2006). In addition, 13 affiliates (13 in the year ended March 31, 2007 and 14 in the year ended March 31, 2006) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 8 companies (8 at March 31, 2007 and 7 at March 31, 2006) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. In preparing the consolidated financial statements, for 5 of the 8 companies, the financial statements of these companies with the December 31 year-end balance sheet date are used. However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated year-end balance sheet date. For the other 3 companies, special purpose financial statements that are prepared for consolidation as of the consolidated balance sheet date are used to supplement the companies' statutory financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between acquisition cost and net assets acquired is shown as consolidation goodwill and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

Through the year ended March 31, 2007, among the consolidated overseas subsidiaries, Compania Colombiana Automotriz S.A. ("CCA") prepares its financial statements based on the accounting principles generally accepted in Colombia to reflect adjustments for the country's inflationary economy and changing prices. Commencing the year ended March 31, 2008, CCA's financial statements do not reflect such adjustments. Refer to following section "3. Adoption of new accounting standards" for more detail.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate on the fiscal year-end; gains and losses in foreign currency translation are included in the income of the current period.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the rates on the subsidiaries' balance sheet dates except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates during the subsidiaries' accounting periods, with the translation differences prorated and included in the shareholders' equity as foreign currency translation adjustments and minority interests.

Cash and cash equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments with maturities of three months or less at the time of acquisition to be cash equivalents.

Securities

The Company and its consolidated domestic subsidiaries (together the "Domestic Companies") classify securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its consolidated subsidiaries do not have trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments of equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

Inventories are stated at cost determined principally by the average method.

Property, plant and equipment (except for leased properties)

Property, plant and equipment are stated mainly at cost. Depreciation is computed principally using the straight-line method over the useful lives of the assets determined in accordance with Japanese income tax law.

Intangible fixed assets (except for leased properties)

Intangible fixed assets are amortized principally on the straight-line method over useful lives of the assets determined in accordance with Japanese income tax law.

Leased properties

Through the year ended March 31, 2007, finance leases, which do not transfer ownership and do not have bargain purchase provisions, are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan. Commencing in the year ended March 31, 2008, finance leases are recognized on balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period. For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

Allowance for doubtful receivables

The Companies provide for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on the analysis of certain individual doubtful accounts.

Investment valuation allowance

Investment valuation allowance provides for losses from investments. The amount is estimated in light of the financial standings of the investee companies.

Reserve for warranty expenses

In order to match the recognition of after-sales expenses to product (vehicle) sales revenues, an amount estimated based on product warranty provisions and actual costs incurred in the past, taking future prospects into consideration, is recognized.

Employees' severance and retirement benefits

The Domestic Companies provide various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. For the Company, the pension plans cover 50% of total retirement benefits. Also, consolidated overseas subsidiaries provide defined benefit and/or contribution plans.

For the Domestic Companies, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Domestic Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Prior service costs are recognized in expenses in equal amounts mainly over 12 years, which is within the average of the estimated remaining service periods of employees, and actuarial gains and losses are recognized in expenses using the straight-line basis mainly over 13 years, which is within the average of the estimated remaining service periods, commencing with the following period. For executive officers, the liability is provided for the amount that would be required if all the executive officers retired at the balance sheet date.

As discussed in Note 9, in connection with the enactment of the Defined Benefit Corporate Pension Law, as of July 31, 2005, the Mazda Social Welfare Pension Fund, which the Company and certain Domestic Companies were members of, obtained approval from the Minister of Health, Labor and Welfare to be relieved of the retirement benefit obligation of the substitutional portion, which relates to past employee services, and for transfer of the retirement benefit obligation of the substitutional portion and the related plan assets to the government. On March 28, 2006, the transfer of the plan assets attributable to the substitutional portion to the government was completed.

Directors' and corporate auditors' retirement benefits

Through the year ended March 31, 2007, the Companies accrued liabilities for directors' and corporate auditors' retirement benefits in an amount calculated based on the internal corporate policy. Commencing the year ended March 31, 2008, the Company reached a decision to terminate retirement benefits to directors and corporate auditors. Refer to the following section "3. Adoption of new accounting standards" for more details.

Income taxes

Income taxes comprise corporation, enterprise and inhabitants taxes. Deferred tax assets and liabilities are recognized to reflect the estimated tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect when the temporary differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that are not expected to be realized.

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2008, 2007 and 2006, research and development costs were ¥114,400 million ($1,144,000 thousand), ¥107,553 million and ¥95,730 million, respectively.

Derivatives and hedge accounting

Derivative financial instruments are mainly stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Domestic Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each fiscal year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each fiscal year after giving effect to the diluting potential of common shares to be issued upon the exercise of stock acquisition rights and stock options.

Cash dividends per share represent actual amounts applicable to the respective years.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Adoption of Accounting Standard for Impairment of Fixed Assets

Commencing in the year ended March 31, 2006, the Domestic Companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan ("ASBJ") on October 31, 2003).

The new accounting standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adopting the new accounting standard on the consolidated statement of income for the year ended March 31, 2006 was to decrease income before income taxes by ¥21,891 million. (See Note 7)

Also, the impaired fixed assets are presented in the consolidated balance sheet net of accumulated impairment in accordance with the revised standard for preparation of consolidated financial statements.

Accounting for Share-based Payment

Commencing in the year ended March 31, 2007, the Domestic Companies adopted ASBJ Statement No. 8, Accounting Standard for Share-based Payment, issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11 (revised 2006), Guidance on Accounting Standard for Share-based Payment, last revised by the ASBJ on May 31, 2006.

The effects of adopting the new standard for the year ended March 31, 2007 were to decrease operating income and income before taxes by ¥67 million. The effects of adopting the new standards on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Accounting Standard for Presentation of Equity in the Balance Sheet

Effective from the year ended March 31, 2007, the Domestic Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the ASBJ on December 9, 2005), and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the ASBJ on December 9, 2005), (collectively, "the New Accounting Standards"). Also, commencing in the year ended March 31, 2007, Domestic Companies adopted "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Statement No. 1 issued by the ASBJ on August 11, 2006), and "Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Guideline No. 2 issued by the ASBJ on August 11, 2006).

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The equity section includes net gain/loss on derivative instruments, net of taxes. Under the previous presentation rules, gain/loss on derivative instruments were included in the assets or liabilities section without considering the related income tax effects. Stock acquisition rights and minority interests are included in the equity section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in between the long-term liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. In the calculation of the equity ratio and the equity per share, the stock acquisition rights and the minority interests are excluded from equity.

Accounting for leases

Commencing in the year ended March 31, 2008, the Domestic Companies early adopted the ASBJ Statement No.13, Accounting Standard for Lease Transaction, and ASBJ Guideline No.16, Guidance on Accounting Standard for Lease Transaction, originally issued by the Business Accounting Deliberation Counsel on June 17, 1993 and by the Japanese Institute of Certified Public Accountants on January 18, 1994, respectively, and both revised by the ASBJ on March 30, 2007. Early adoption of ASBJ Statement No. 13 and ASBJ Guideline No. 16 is permitted as of the beginning of a fiscal year that begins on or after April 1, 2007.

The effects of adopting the new standards on the consolidated balance sheet as of March 31, 2008 were to increase property, plant and equipment and intangible fixed assets by ¥33,862 million ($338,620 thousand) and ¥15 million ($150 thousand) respectively, and to increase current liabilities and long-term liabilities by ¥12,448 million ($124,480 thousand) and ¥22,505 million ($225,050 thousand) respectively. In addition, the effects of adopting the new standards on the consolidated statement of income for the year ended March 31, 2008, were to increase operating income by ¥1,199 million ($11,990 thousand), and to decrease income before income taxes by ¥918 million ($9,180 thousand).

Through the year ended March 31, 2007, in the consolidated statement of cash flows, all payments of lease fees were included in the cash flows from operating activities. Commencing in the year ended March 31, 2008, however, those portions that constitute payment of lease obligations are included in the cash flows from financing activities.

Also, through the year ended March 31, 2007, proceeds from sale-leaseback transactions were included in the cash flows from investing activities. Commencing in the year ended March 31, 2008, however, proceeds from sale-leaseback transactions are included in the cash flows from financing activities by taking the financing nature of the transactions into consideration.

The effects of adopting the new standards on the consolidated statement of cash flows for the year ended March 31, 2008 were to increase cash flows from operating activities by ¥13,890 million ($138,900 thousand), to decrease cash flows from investing activities by ¥8,794 million ($87,940 thousand), and to decrease cash flows from financing activities by ¥5,096 million ($50,960 thousand).

The effects of adopting the new standards on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Through the year ended March 31, 2007, in the consolidated balance sheet, leased property and lease obligations related to finance lease transactions by an overseas consolidated subsidiary were included in the tools, furniture, fixtures and other of the property, plant and equipment (¥2,145 million as of March 31, 2007), in the long-term debt due within one year of the current liabilities (¥6,291 million as of March 31, 2007) and in the long-term debt due after one year of the long-term liabilities (¥1,604 million as of March 31, 2007), respectively. Commencing in the year ended March 31, 2008, however, these leased property and lease obligations are included in the leased property of the property, plant and equipment, the long-term debt due within one year of current liabilities and long-term debt due after one year of long-term liabilities, respectively, as the Domestic Companies adopted the revised accounting standards for leases as discussed earlier in the accounting changes and adoption of new accounting standards, which resulted in increased materiality of leased property and lease obligations.

As of March 31, 2008, the balance of the leased property in the property, plant and equipment amounted to ¥1,384 million ($13,840 thousand), and that of long-term debt due within one year amounted to ¥641 million ($6,410 thousand) in the current liabilities.

Depreciation of tangible fixed assets

Commencing in the year ended March 31, 2008, for those tangible fixed assets that were acquired on or after April 1, 2007, the Domestic Companies changed the depreciation method in accordance with the applicable provisions of the revised Japanese Income Tax Code, Law No. 6, and Ordinance No. 83 to Partly Revise Japanese (Corporate) Income Tax Code, both promulgated on March 30, 2007.

The effects of this change on the consolidated statement of income for the year ended March 31, 2008 were to decrease operating income by ¥910 million ($9,100 thousand) and income before income taxes by ¥912 million ($9,120 thousand).

The effects of adopting the new standards on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Adoption of accounting standard by an overseas subsidiary

Through the year ended March 31, 2007, among the consolidated subsidiaries, CCA prepared its financial statements based on the accounting principles generally accepted in Colombia to reflect adjustments for the country's inflationary economy and changing prices. On May 7, 2007, however, the federal government of Colombia promulgated a decree to abolish such adjustments from the country's accounting principles. As a result, commencing in the year ended March 31, 2008, CCA's financial statements do not reflect such adjustments.

In the consolidated statement of income for the year ended March 31, 2008, the effects of adopting the new standard on operating income was none and those on income before income taxes were immaterial.

Changes in Financial Statement Presentation

Through the year ended March 31, 2007, in the consolidated balance sheet, directors' and corporate auditors' retirement benefits was presented as a separate component of the long-term liabilities. Commencing in the year ended March 31, 2008, however, the retirement benefits are included in the other long-term liabilities due to a decrease in materiality, as the Company has terminated the compensation for directors and corporate auditors in the form of retirement benefits.

As of March 31, 2008, the balance of directors' and corporate auditors' retirement benefits recognized by certain consolidated domestic subsidiaries amounted to ¥631 million ($6,310 thousand).

Additional Information

Accounting for residual value of fixed assets

In relation to the changes in the Japanese Income Tax Code, commencing in the year ended March 31, 2008, for the tangible fixed assets that were acquired on or before March 31, 2007 and for which accumulated depreciation has reached 95% of the acquisition cost, the Domestic Companies recognize depreciation for the difference between the 5% residual value and the nominal value (i.e., 1 yen) on a straight-line basis over 5 years, starting in the year following the year in which accumulated depreciation has reached 95% of the acquisition cost (or the year ended March 31, 2008, whichever comes later).

The effects of adopting this accounting for residual value of property, plant and equipment on the consolidated statement of income for the year ended March 31, 2008 were to decrease operating income by ¥3,951 million ($39,510 thousand) and to decrease income before income taxes by ¥4,113 million ($41,130 thousand).

The effects of adopting this accounting for residual value of fixed assets on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Termination of directors' and corporate auditors' retirement benefits

The Company used to recognize, in the liabilities, directors' and corporate auditors' retirement benefits that provides for retirement benefits to directors and corporate auditors; the amount that would be required by the internal corporate policy if all the directors and corporate auditors retired on the balance sheet date was recognized. As part of management reform, however, by the resolution of the general meeting of shareholders held on June 26, 2007, the Company reached a decision to terminate retirement benefits to directors and corporate auditors as of the end of this general meeting of shareholders as well as to pay the directors and corporate auditors such benefits already earned by the time of the decision.

In relation to this decision, in the consolidated balance sheet as of March 31, 2008, an amount equivalent to the retirement benefits earned prior to the resolution, i.e., ¥618 million ($6,180 thousand), was recognized in other long-term liabilities.

4. SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2008 and 2007.

Available-for-sale securities that have available market values as of March 31, 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Unrealized gains	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥558	¥1,441	¥883	$5,580	$14,410	$8,830
Other	362	362	—	3,620	3,620	—
	¥920	¥1,803	¥883	$9,200	$18,030	$8,830

Available-for-sale securities with no available fair values as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥3,196	$31,960

Available-for-sale securities that have available market values as of March 31, 2007 were as follows:

	Millions of yen		
	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥562	¥2,253	¥1,691
Other	306	306	—
	¥868	¥2,559	¥1,691

Available-for-sale securities with no available fair values as of March 31, 2007 were as follows:

	Millions of yen
	Book value
Non-listed equity securities	¥17,100

5. INVENTORIES

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2008	2007	2008
Finished products	¥242,224	¥236,222	$2,422,240
Work in process	32,637	32,683	326,370
Raw materials and supplies	12,855	13,527	128,550
	¥287,716	¥282,432	$2,877,160

6. LAND REVALUATION

As of March 31, 2001, in accordance with the Law to Partially Revise the Land Revaluation Law (Law No.19, enacted on March 31, 2001), land owned by the Company for business use was revalued. The unrealized gains on the revaluation are included in equity as “Land revaluation”, net of deferred taxes. The deferred taxes on the unrealized gains are included in liabilities as “Deferred tax liability related to land revaluation”.

The fair value of land was determined based on official notice prices that are assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of 1998 Cabinet Order, promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, are made to the official notice prices.

The amount of decrease in the aggregate fair value of the revalued land as of March 31, 2008 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥82,650 million ($826,500 thousand).

7. IMPAIRMENT OF FIXED ASSETS

As discussed in Note 3, the Domestic Companies adopted the new accounting standard for impairment of fixed assets and have been reviewing their fixed assets for impairment as of the year ended March 31, 2006. Assets are generally grouped by company; however, idle assets and assets for rent are individually reviewed for impairment. As a result, for the year ended March 31, 2006, an impairment loss of ¥21,891 million was recognized on certain idle assets without a future business plan, including distribution centers and production equipment, by reducing the carrying amount to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss. The recoverable amount of an idle asset is measured based on the net selling amount. For land, the net selling amount is estimated based on a third-party appraisal; for other idle assets, the net selling amount is nominal.

The loss on impairment of fixed assets of ¥2,196 million ($21,960 thousand) was recognized in other income (expenses) (see Note 12) in the consolidated statement of income for the year ended March 31, 2008.

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2008 and 2007 consisted of loans, principally from banks with interest at March 31, 2008 and 2007 averaging 1.6% and 1.0% for the respective years.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

As of March 31	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Domestic unsecured bonds due serially 2007 through 2014 at rates of 0.70% to 1.87% per annum	¥105,000	¥105,200	$1,050,000
Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest	—	1,131	—
Loans principally from banks and insurance companies:			
Secured loans, maturing through 2020	39,121	44,932	391,210
Unsecured loans, maturing through 2017	255,413	253,081	2,554,130
Lease obligations, maturing through 2017	35,594	—	355,940
	435,128	404,344	4,351,280
Amount due within one year	(66,024)	(63,495)	(660,240)
	¥369,104	¥340,849	$3,691,040

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 2.0% and 3.0% for obligations due within one year and 1.7% and 3.0% for obligations due after one year at March 31, 2008. And 2.3% for obligations due within one year and 1.7% for obligations due after one year at March 31, 2007.

As is customary in Japan, security must be provided if requested by a lending bank. Such a bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debts payable to the bank. The Company has never received any such requests.

The exercise price of the domestic unsecured convertible bonds with stock acquisition rights is ¥306.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 52,935	$ 529,350
2010	19,115	191,150
2011	38,838	388,380
2012	65,785	657,850
2013	54,368	543,680
Thereafter	168,493	1,684,930
	¥399,534	$3,995,340

The annual maturities of lease obligations at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥13,089	$130,890
2010	10,546	105,460
2011	5,683	56,830
2012	3,798	37,980
2013	1,215	12,150
Thereafter	1,263	12,630
	¥35,594	$355,940

The assets pledged as collateral for short-term debt of ¥39,497million ($394,970 thousand) and long-term debt of ¥39,121 million ($391,210 thousand) at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥473,554	$4,735,540
Other	36	360
	¥473,590	$4,735,900

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits included in the liability sections of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2008	2007	2008
Projected benefit obligation	¥311,051	¥322,377	$3,110,510
Unrecognized prior service costs	21,633	23,920	216,330
Unrecognized actuarial differences	(66,966)	(55,911)	(669,660)
Less fair value of pension assets	(169,587)	(181,514)	(1,695,870)
Prepaid pension cost	3,713	2,693	37,130
Liability for severance and retirement benefits	¥ 99,844	¥111,565	$ 998,440

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	2008	2007	2006	2008
Service costs—benefits earned during the year	¥11,262	¥11,048	¥ 8,630	$112,620
Interest cost on projected benefit obligation	6,623	6,543	10,809	66,230
Expected return on plan assets	(5,946)	(5,333)	(4,365)	(59,460)
Amortization of prior service costs	(2,095)	(2,126)	(2,302)	(20,950)
Amortization of actuarial differences	6,159	6,456	5,195	61,590
Severance and retirement benefit expenses	¥16,003	¥16,588	¥17,967	$160,030

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 2.0% and 3.0%, respectively, for the year ended March 31, 2008, and 2.0% and 3.0%, respectively, for the year ended March 31, 2007. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions.

For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

The newly enacted Defined Benefit Corporate Pension Law allows a company to transfer the substitutional portion back to the government. In order to transfer the substitutional portion, a company must obtain approval from the Minister of Health, Labor and Welfare (MHLW) for the exemption from the payment of the benefits related to future employee service. In addition, a company must obtain approval from the MHLW to be relieved from the remaining benefit obligation of the substitutional portion which relates to past employee services. On obtaining that approval, a company will transfer the remaining benefit obligation of the substitutional portion pertaining to past employee services and the related plan assets to the government.

Based on the Defined Benefit Corporate Pension Law, the Company and certain other Domestic Companies decided to restructure their Employees' Pension Fund and were permitted by the MHLW on March 26, 2004 to be released from their future obligation for payments for the substitutional portion.

On July 31, 2005, the Company and the other Domestic Companies obtained approval from the MHLW to be relieved from the retirement benefit obligation of the substitutional portion which relates to past employee services and to transfer of the retirement benefit obligation of the substitutional portion and the related plan assets to the government. On March 28, 2006, the transfer of the plan assets attributable to the substitutional portion to the government was completed. The effect of the transfer on the consolidated statement of income for the year ended March 31, 2006 was to increase other income by ¥59,611 million.

For the years ended March 31, 2008 and 2007, other than defined benefit plan, defined contribution plan has been adopted. Accrued pension cost of defined contribution plan was included in consolidated statement of income by ¥2,226 million ($22,260 thousand) and ¥1,949 million.

10. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Discounted trade notes receivable	¥ 183	$ 1,830
Factoring of receivables with recourse	22,372	223,720
Guarantees of loans and similar agreements	10,381	103,810
Letters of undertaking to provide guarantees for leases for factory facilities	15,233	152,330

11. EQUITY

The Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code ("the Code"). Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholder's meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholder's meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve could be transferred to retained earnings by the resolution of the shareholder's meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of the common stock balance. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholder's approval has been obtained.

Retained earnings at March 31, 2008 include amounts representing year-end cash dividends of ¥4,228 million ($42,280 thousand), which were approved at the shareholder's meeting held on June 25, 2008.

Pension adjustments recognized by an overseas consolidated subsidiary

Commencing in the year ended March 31, 2007, a consolidated subsidiary in the United States adopted the Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The amount (net of tax) that the consolidated subsidiary recognized, in the balance sheet, as a component of the other accumulated comprehensive income in the equity is recognized, in the consolidated balance sheet, as "pension adjustments recognized by an overseas consolidated subsidiary" as a separate component of the valuation and translation adjustments of the equity.

Accounting for uncertainty in income taxes

Commencing in the year ended March 31, 2008, the consolidated subsidiary in the United States adopted the FASB Interpretation No.48 ("FIN 48"), Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, and made a cumulative effect adjustment to the opening balance of retained earnings. In the consolidated financial statements, the cumulative effect was recognized as a reduction in retained earnings in the consolidated statement of equity for the year ended March 31, 2008.

12. OTHER INCOME (EXPENSES)

The components of "Other, net" in Other income (expenses) in the statements of income for the years ended March 31, 2008, 2007 and 2006 were comprised as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	2008	2007	2006	2008
Gain/(loss) on sale of investment securities, net	¥ 27	¥ (16)	¥ 1,407	$ 270
Loss on sale of property, plant and equipment, net	(3,030)	(3,380)	(6,433)	(30,300)
Rental income	1,989	1,764	1,926	19,890
Gain on the transfer to the government of the substitutional portion of employee pension fund liabilities	—	—	59,611	—
Loss on impairment of fixed assets	(2,196)	(3,356)	(36,650)	(21,960)
Foreign exchange loss	(7,544)	(19,914)	(19,088)	(75,440)
Compensation received for the exercise of eminent domain	122	—	472	1,220
Gain on retroactive correction of fixed assets	1,330	—	—	13,300
Insurance claim income	—	—	996	—
Adoption of revised accounting standard for leases	(1,144)	—	—	(11,440)
Inventory valuation loss related to car-carrying vessel accident	—	(1,979)	—	—
Other	(2,713)	(5,975)	(7,881)	(27,130)
	¥(13,159)	¥(32,856)	¥(5,640)	$(131,590)

13. INCOME TAXES

The effective tax rates reflected in the consolidated statements of income differ from the statutory tax rate for the following reasons.

For the years ended March 31	2008	2007	2006
Statutory tax rate	40.4%	40.4%	40.4%
Equity in net income of unconsolidated subsidiaries and affiliated companies	(2.4)	(2.1)	(3.1)
Valuation allowances	(1.7)	(2.1)	1.0
Unrealized profits from intercompany transactions	—	—	(6.6)
Prior year income taxes	2.1	2.8	8.7
Tax credit	(3.3)	(3.8)	—
Other	0.2	1.1	1.4
Effective tax rate	35.3%	36.3%	41.8%

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

As of March 31	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,655	¥ 1,721	$ 16,550
Employees' severance and retirement benefits	40,043	44,517	400,430
Loss on impairment of fixed assets	6,691	8,046	66,910
Accrued bonuses and other reserves	37,875	29,893	378,750
Inventory valuation	4,281	5,019	42,810
Valuation loss on investment securities, etc.	1,206	1,438	12,060
Net operating loss carryforwards	12,736	14,126	127,360
Other	70,568	76,037	705,680
Total gross deferred tax assets	175,055	180,797	1,750,550
Less valuation allowance	(21,014)	(23,911)	(210,140)
Total deferred tax assets	154,041	156,886	1,540,410
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(7,193)	(7,756)	(71,930)
Other	(10,254)	(3,643)	(102,540)
Total deferred tax liabilities	(17,447)	(11,399)	(174,470)
Net deferred tax assets	¥136,594	¥145,487	$1,365,940

The net deferred tax assets are included in the following accounts in the consolidated balance sheets:

As of March 31	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Current assets—Deferred taxes	¥ 92,594	¥ 97,184	$ 925,940
Investments and other assets—Deferred taxes	45,516	48,449	455,160
Current liabilities—Other	(5)	(1)	(50)
Other long-term liabilities	(1,511)	(145)	(15,110)
Net deferred tax assets	¥136,594	¥145,487	$1,365,940

14. PRIOR YEAR INCOME TAXES

Prior year income taxes recorded in the year ended March 31, 2008 are primarily for the taxes that the Company was subject to a tax audit by the Hiroshima Regional Taxation Bureau. As a result of the tax audit, the Company had reassessment and corrected certain prior year income tax filings to pay additional income taxes and penalties in accordance with the reassessment in January 2008. These additional income taxes and penalties, which amounted to a total of ¥6,290 million ($62,900 thousand), were recognized as prior year income taxes in the statement of income for the year ended March 31, 2008.

Also, prior year income taxes recorded in the year ended March 31, 2007 are primarily for the taxes that the Company expects to pay on transactions between the Company and its domestic dealerships. The Company bears part of the expenses that its dealerships incur for sales and promotional activities. Recent internal investigation has unveiled transactions that are not deductible for the purpose of income tax filing due to inappropriate documentation for invoices and payments as well as unclear grounds for the determination of the amounts to be borne by the Company. As a result, the Company has recognized the estimated additional taxes for the prior three years of ¥3,229 million, as prior year income taxes in the consolidated statement of income for the year ended March 31, 2007. The estimated amount of ¥3,229 million is net of deferred taxes of ¥293 million on those portions of prefectural taxes that are deductible in the future federal income tax filings.

Also, prior year income taxes recorded in the year ended March 31, 2006 are primarily for the taxes expected to be reassessed on transactions between the Company and an overseas subsidiary. The Company was audited by the Hiroshima Regional Taxation Bureau, and the Company expects that the tax audit is likely to conclude in the near future. As a result of the tax audit, it is highly likely that additional income taxes will be reassessed on transactions between the Company and an overseas subsidiary, and the Company recognized the expected increase in tax with respect to the transactions as prior year income taxes in the consolidated statement of income for the year ended March 31, 2006. The Company plans to formally request for bilateral consultations between the two countries under the applicable tax treaties for transfer pricing in order to obtain relief from double taxation.

15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company and its consolidated subsidiaries use foreign exchange forward contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuations in foreign currency exchange rates. Also, only for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Company and its consolidated subsidiaries use interest rate swap contracts.

Foreign exchange forward contracts are subject to risks of foreign exchange rate changes.

Interest rate swap contracts are subject to risks of interest rate changes.

The policies for derivative transactions of the Company and its consolidated subsidiaries are determined by the Company's president or chief financial officer. Derivative contracts are concluded under the directions of the Company's Financial Services Division in accordance with the established rules of the Company. Derivative transactions are executed and the balances are managed by each individual company; the president of each company is responsible for the inspection. Also, the Company's Financial Services Division is responsible for overall management on a Groupwide basis.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency loans receivable and future transactions
Interest rate swap contracts	Interest on borrowings

The following tables summarize market value information as of March 31, 2008 and 2007 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2008	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Foreign exchange forward contracts:						
Sell:						
U.S. dollars	¥ 57,972	¥ 53,148	¥4,824	$ 579,720	$ 531,480	$48,240
Australian dollars	2,289	2,133	156	22,890	21,330	1,560
Euros	21,431	21,169	262	214,310	211,690	2,620
Sterling pounds	5,529	5,028	501	55,290	50,280	5,010
Buy:						
Thai baht	8,486	7,610	(876)	84,860	76,100	(8,760)
Australian dollars	6,489	6,524	35	64,890	65,240	350
Sterling pounds	6,366	6,372	6	63,660	63,720	60
Swiss Francs	788	787	(1)	7,880	7,870	(10)
	¥109,350	¥102,771	¥4,907	$1,093,500	$1,027,710	$49,070

As of March 31, 2007	Millions of yen		
	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥32,051	¥31,980	¥ 71
Canadian dollars	2,384	2,404	(20)
Australian dollars	2,393	2,518	(125)
Euros	20,420	21,097	(677)
Sterling pounds	5,402	5,475	(73)
Swiss Francs	291	291	—
Buy:			
Thai baht	8,595	9,314	719
Australian dollars	3,671	3,661	(10)
	¥75,207	¥76,740	¥(115)

For foreign exchange forward contracts, fair values at year-end are estimated based on prevailing forward exchange rates at that date.

16. LEASES

As discussed in the earlier section of accounting changes, commencing in the year ended March 31, 2008, the Domestic Companies adopted early the new accounting standard for leases to recognize leased property and lease obligations on the balance sheet. Since the prior year financial statements are not restated for comparison, prior year information on non-capitalized finance leases are presented in the following.

As lessee, the equivalents of the acquisition costs, accumulated depreciation and net book values of finance leases accounted for as operating leases as of March 31, 2007 were as follows:

As of March 31	Millions of yen
	2007
Acquisition costs for machinery, tools and equipment	¥72,040
Accumulated depreciation	36,782
Net book value	¥35,258

Lease payments under non-capitalized finance leases amounted to ¥13,866 million and ¥14,514 million for the years ended March 31, 2007 and 2006, respectively.

The equivalents of the related depreciation and interest expenses amounted to ¥12,651 million and ¥1,105 million for the ended March 31, 2007, ¥12,878 million and ¥1,248 million for the year ended March 31, 2006 respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2008 and 2007 were as follows:

As of March 31	Millions of yen	Millions of yen		Thousands of U.S. dollars
	Finance leases	Operating leases		
	2007	2008	2007	2008
Current portion	¥12,455	¥ 3,443	¥ 2,748	$ 34,430
Non-current portion	23,941	16,072	8,833	160,720
	¥36,396	¥19,515	¥11,581	$195,150

17. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of passenger and commercial vehicles. Net sales, operating income (loss) and assets related to this industry have exceeded 90% of the respective consolidated amounts. Accordingly, information by industry segment is not shown.

Net sales, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen						
For the year ended March 31, 2008	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,289,248	¥974,504	¥872,616	¥339,421	¥3,475,789	¥ —	¥3,475,789
Inter-area	1,408,934	4,469	22,201	2,401	1,438,005	(1,438,005)	—
Total	2,698,182	978,973	894,817	341,822	4,913,794	(1,438,005)	3,475,789
Costs and expenses	2,590,533	972,986	876,835	321,001	4,761,355	(1,447,713)	3,313,642
Operating income	¥ 107,649	¥ 5,987	¥ 17,982	¥ 20,821	¥ 152,439	¥ 9,708	¥ 162,147
Total identifiable assets	¥1,775,855	¥174,719	¥179,411	¥ 68,629	¥2,198,614	¥ (213,048)	¥1,985,566

	Millions of yen						
For the year ended March 31, 2007	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,226,988	¥991,192	¥774,837	¥254,468	¥3,247,485	¥ —	¥3,247,485
Inter-area	1,347,406	7,074	19,899	1,638	1,376,017	(1,376,017)	—
Total	2,574,394	998,266	794,736	256,106	4,623,502	(1,376,017)	3,247,485
Costs and expenses	2,451,263	982,810	779,242	246,517	4,459,832	(1,370,879)	3,088,953
Operating income	¥ 123,131	¥ 15,456	¥ 15,494	¥ 9,589	¥ 163,670	¥ (5,138)	¥ 158,532
Total identifiable assets	¥1,663,264	¥219,947	¥166,276	¥ 56,074	¥2,105,561	¥ (197,809)	¥1,907,752

	Millions of yen						
For the year ended March 31, 2006	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,213,283	¥823,447	¥655,370	¥227,723	¥2,919,823	¥ —	¥2,919,823
Inter-area	1,056,948	7,397	18,275	1,106	1,083,726	(1,083,726)	—
Total	2,270,231	830,844	673,645	228,829	4,003,549	(1,083,726)	2,919,823
Costs and expenses	2,169,998	816,941	664,074	220,237	3,871,250	(1,074,862)	2,796,388
Operating income	¥ 100,233	¥ 13,903	¥ 9,571	¥ 8,592	¥ 132,299	¥ (8,864)	¥ 123,435
Total identifiable assets	¥1,556,200	¥202,238	¥143,626	¥ 48,148	¥1,950,212	¥ (161,553)	¥1,788,659

	Thousands of U.S. dollars						
For the year ended March 31, 2008	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	$12,892,480	$9,745,040	$8,726,160	$3,394,210	$34,757,890	$ —	$34,757,890
Inter-area	14,089,340	44,690	222,010	24,010	14,380,050	(14,380,050)	—
Total	26,981,820	9,789,730	8,948,170	3,418,220	49,137,940	(14,380,050)	34,757,890
Costs and expenses	25,905,330	9,729,860	8,768,350	3,210,010	47,613,550	(14,477,130)	33,136,420
Operating income	$ 1,076,490	$ 59,870	$ 179,820	$ 208,210	$ 1,524,390	$ 97,080	$ 1,621,470
Total identifiable assets	$17,758,550	$1,747,190	$1,794,110	$ 686,290	$21,986,140	$ (2,130,480)	$19,855,660

Notes: 1) Method of segmentation and principal counties or regions belonging to each segment
a) Method: Segmentation by geographic adjacency
b) Principal countries or regions belonging to each segment
North America ..... U.S.A. and Canada
Europe..... Germany, U.K. and Belgium
Other areas ..... Australia and Colombia

2) As discussed in the accounting for share-based payment section of the adoption of new accounting standards, commencing in the year ended March 31, 2007, the Domestic Companies adopted the ASBJ Statement No. 8, Accounting Standard for Share-based Payment, issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11 (revised 2006), Guidance on Accounting for Share-based Payment, last revised by the ASBJ on May 31, 2006. The effects of adopting the new standard on the consolidated statement of income for the year ended March 31, 2007 were to increase the operating expenses and to decrease the operating income in the Japan segment by ¥67 million.

3) As discussed earlier in the accounting for leases section, commencing in the year ended March 31, 2008, the Domestic Companies early adopted the revised accounting standard for leases. The effects of adopting the new standards on Japan segment for the year ended March 31, 2008 were to decrease operating expense by ¥1,199 million ($11,990 thousand) and to increase operating income by the same amount.

4) As discussed earlier in the depreciation of tangible fixed assets section, commencing in the year ended March 31, 2008, the Domestic Companies changed the depreciation method in relation to the change in the Japanese Income Tax Code. The effects of this change on Japan Segment for the year ended March 31, 2008 were to increase operating expense by ¥910 million ($9,100 thousand) and to decrease operating income by the same amount.
5) As discussed earlier in the accounting for residual value for fixed assets section, commencing in the year ended March 31, 2008, in relation to the changes in the Japanese Income Tax Code, for the tangible fixed assets that were acquired on or before March 31, 2007 and for which accumulated depreciation has reached 95% of the acquisition cost, the Domestic Companies recognize depreciation for the difference between the 5% residual value and the nominal value (i.e., 1 yen) on a straight-line basis over 5 years, starting in the year following the year in which accumulated depreciation has reached 95% of the acquisition cost (or the year ending March 31, 2008, whichever comes later). The effects of adopting this accounting for residual value of fixed assets on the consolidated statement of income for the year ended March 31, 2008, were to increase operating expense by ¥3,951 million ($39,510 thousand) and to decrease operating income by same amount.

International sales for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			
For the year ended March 31, 2008	North America	Europe	Other areas	Total
International sales	¥1,015,315	¥888,555	¥691,787	¥2,595,657
Percentage of consolidated net sales	29.2%	25.6%	19.9%	74.7%

	Millions of yen			
For the year ended March 31, 2007	North America	Europe	Other areas	Total
International sales	¥1,017,874	¥789,135	¥553,149	¥2,360,158

	Millions of yen			
For the year ended March 31, 2006	North America	Europe	Other areas	Total
International sales	¥843,988	¥668,941	¥519,232	¥2,032,161
Percentage of consolidated net sales	28.9%	22.9%	17.8%	69.6%

	Thousands of U.S. dollars			
For the year ended March 31, 2008	North America	Europe	Other areas	Total
International sales	$10,153,150	$8,885,550	$6,917,870	$25,956,570

Notes: 1) Overseas sales include exports by Mazda Motor Corporation and its domestic consolidated subsidiaries as well as sales (other than exports to Japan) by overseas consolidated subsidiaries.
2) Method of segmentation and principal countries or regions belonging to each segment
a) Method: Segmentation by geographic adjacency
b) Principal countries or regions belonging to each segment
North America ..... U.S.A. and Canada
Europe ..... Germany, U.K. and Russia
Other areas ..... Australia, China and Colombia

18. RELATED PARTY TRANSACTIONS

The Company issued guarantees of loans and letters of undertaking to provide guarantees to certain creditors of AutoAlliance International, Inc. ("AAI"), an affiliate which is accounted for by the equity basis. As of March 31, 2008 and 2007, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥16,480 million ($164,800 thousand) and ¥22,789 million, respectively, of AAI's obligations.

19. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended March 31, 2008 and 2007, the exercise of bonds with stock acquisition rights increased common stock by ¥555 million ($5,550 thousand) and ¥1,153 million, respectively, and increased capital surplus by ¥555 million ($5,550 thousand) and ¥1,153 million, respectively, and decreased bonds with stock acquisition rights by ¥1,110 million ($11,100 thousand) and ¥2,306 million, respectively.

Assets and liabilities related to finance lease transactions that were newly recognized in the year ended March 31, 2008 amounted to ¥38,743 million ($387,430 thousand) and ¥39,906 million ($399,060 thousand), respectively.

20. SUBSEQUENT EVENTS

The Board of Directors of the Company resolved on March 31, 2008, to issue notes and bonds up to ¥70,000 million ($700,000 thousand) from April of 2008 to March of 2009. The Company issued domestic unsecured bonds of ¥10,000 million ($100,000 thousand) on June 17, 2008. The bonds will mature in 2013.

In addition, the following appropriation of retained earnings was approved at a shareholders' meeting held on June 25, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends: ¥3.00 ($0.03) per share	¥4,228	$42,280

Assurance by Key Management

June 25, 2008

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's annual report for the year ended March 31, 2008 are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan.

President and
Chief Executive Officer

Hisakazu Imaki

Senior Managing Executive Officer and
Chief Financial Officer

David E. Friedman

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors of
Mazda Motor Corporation:

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, the related consolidated statements of income, equity and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of Mazda Motor Corporation's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mazda Motor Corporation and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As referred to in Note 3, effective April 1, 2007, Mazda Motor Corporation and domestic subsidiaries adopted new accounting standard for lease transaction.

(2) As referred to in Note 3, effective April 1, 2006, Mazda Motor Corporation and consolidated domestic subsidiaries adopted new accounting standard for presentation of equity in the balance sheet and revised accounting standard for treasury shares and appropriation of legal reserve.

(3) As referred to in Note 3, effective April 1, 2006, Mazda Motor Corporation and domestic subsidiaries adopted new accounting standard for share-based payment.

(4) As referred to in Note 3, effective April 1, 2005, Mazda Motor Corporation and consolidated domestic subsidiaries adopted new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 25, 2008

Corporate Data (As of March 31, 2008)

Name: Mazda Motor Corporation
Founded: January 1920
Capital: ¥150,068 million
Number of Employees: 39,364 (consolidated)

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MAZDA WEB SITE ADDRESS

Additional information is available on Mazda's global web site.
URL: http://www.mazda.com
For investors:
URL: http://www.mazda.com/investors/

FOR REQUESTS AND INQUIRIES

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Directory (As of March 31, 2008)

RESEARCH AND DEVELOPMENT SITES

Hiroshima Head Office, Mazda R&D Center Yokohama, Mazda Motor of America (U.S.), Mazda Motor Europe (Germany), China Engineering Support Center

MANUFACTURING SITES

Japan

Hiroshima Plant (Head Office, Ujina), Hofu Plant (Nishinoura, Nakanoseki), Miyoshi Plant

Overseas

U.S.A., China, Taiwan, Thailand, Philippines, Zimbabwe, South Africa, Ecuador, Colombia

PRINCIPAL SUBSIDIARIES AND AFFILIATES

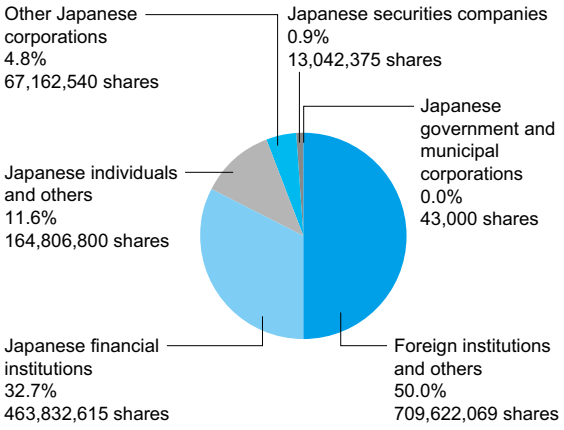
Company	Capital		Holding (%)
Mazda Motor of America, Inc.	240,000	Thousand USD	100.0
Mazda Canada Inc.	111,000	Thousand CAD	100.0
Mazda Motor Europe GmbH	26	Thousand EUR	100.0*
Mazda Motor Logistics Europe N.V.	71,950	Thousand EUR	100.0
Mazda Motors (Deutschland) GmbH	17,895	Thousand EUR	100.0*
Mazda Motors UK Ltd.	4,000	Thousand GBP	100.0*
Mazda Motor (China) Co., Ltd.	78,290	Thousand CNY	100.0
Kanto Mazda Co., Ltd.	3,022	Million JPY	100.0
Tokai Mazda Hanbai Co., Ltd.	2,110	Million JPY	100.0
Kansai Mazda Co., Ltd.	950	Million JPY	100.0
Kyushu Mazda Co., Ltd.	826	Million JPY	100.0
Mazda Autozam Inc.	1,725	Million JPY	100.0
Mazda Parts Kanto Co., Ltd.	501	Million JPY	97.0
Kurashiki Kako Co., Ltd.	310	Million JPY	75.0
Malox Co., Ltd.	490	Million JPY	99.6
Mazda Chuhan Co., Ltd.	1,500	Million JPY	100.0
Toyo Advanced Technologies Co., Ltd.	3,000	Million JPY	100.0
AutoAlliance International, Inc.	760,000	Thousand USD	50.0
AutoAlliance (Thailand) Co., Ltd.	5,000,000	Thousand THB	50.0*
Changan Ford Mazda Automobile Co., Ltd.	2,372,734	Thousand CNY	15.0
Changan Ford Mazda Engine Co., Ltd.	1,114,586	Thousand CNY	25.0
FAW Mazda Motor Sales Co., Ltd.	100,000	Thousand CNY	25.0

Note: *Including voting rights held by subsidiaries.

Stock Information (As of March 31, 2008)

Authorized:	3,000,000,000 shares
Issued:	1,418,509,399 shares
Number of Shareholders:	61,900
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal Year-End:	March 31
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

BREAKDOWN OF SHAREHOLDERS

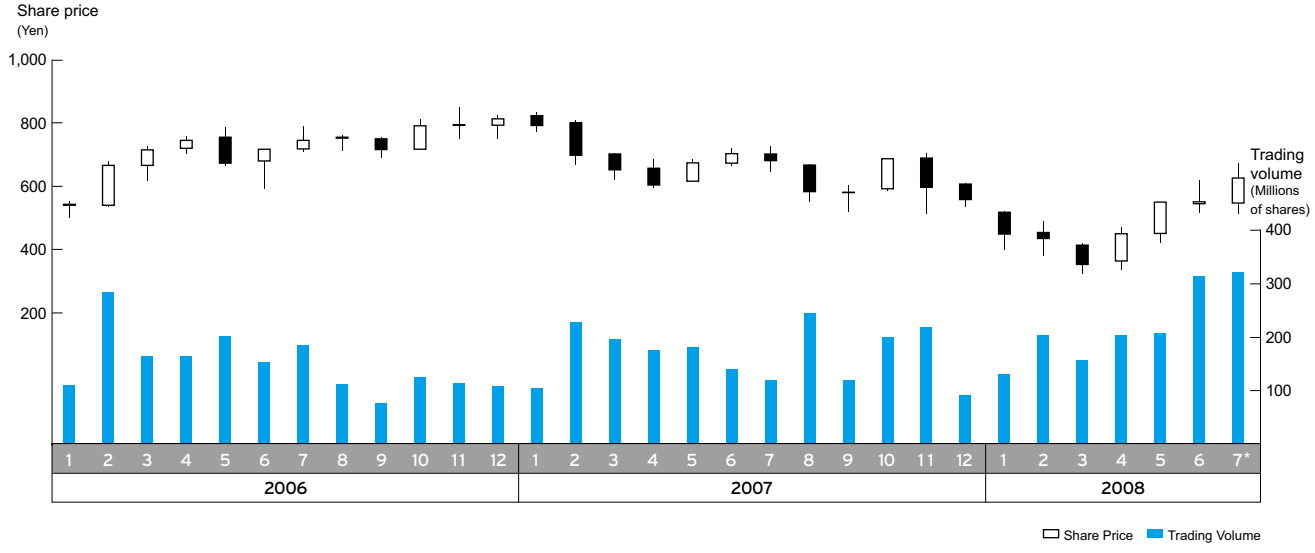


MAJOR SHAREHOLDERS

Shareholder	No. of Shares Owned (Thousands)	Ownership (%)
Ford Motor Company	473,535	33.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	78,923	5.6
Japan Trustee Services Bank, Ltd. (Trust Account)	71,635	5.1
Tokio Marine & Nichido Fire Insurance Co., Ltd.	40,410	2.9
Sumitomo Mitsui Banking Corp.	37,624	2.7
Mitsui Sumitomo Insurance Co., Ltd.	32,483	2.3
Sompo Japan Insurance Inc.	20,210	1.4
Japan Trustee Services Bank, Ltd. (Trust Account 4)	19,255	1.4
BNP Paribas Securities (Japan) Ltd.	18,921	1.3
The Sumitomo Trust & Banking (Trust Account B)	16,837	1.2

Note: Ownership does not take into account Mazda's 9,171,789 shares of treasury stock.

SHARE PRICE AND TRADING VOLUME (Tokyo Stock Exchange, First Section)



* July 2008 trading volume preliminary figures

Mazda Motor Corporation

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